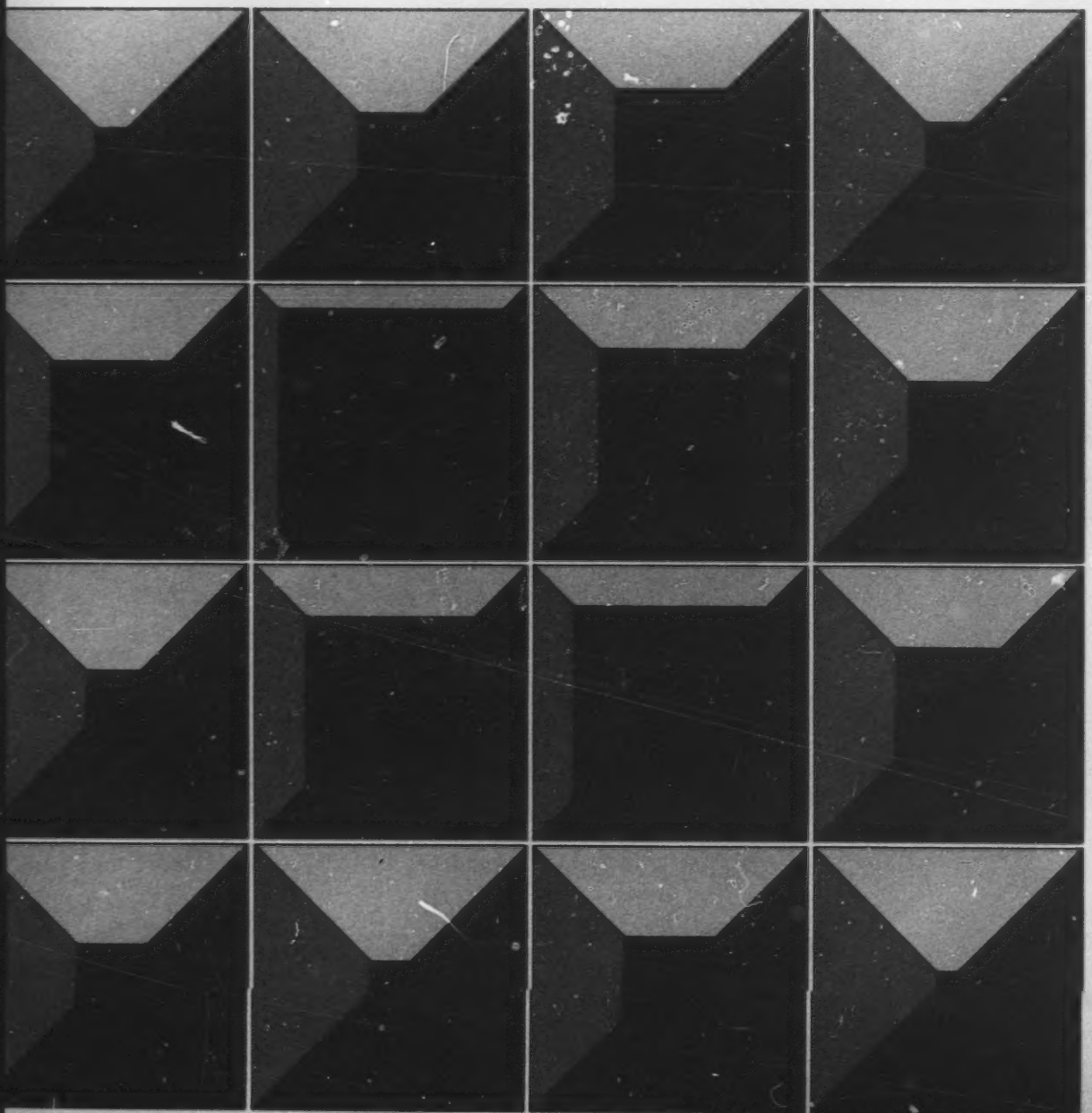
CBO STUDY

The Federal Buildings Program: Authorization and Budgetary Alternatives

June 1983

Congress of the United States
Congressional Budget Office



J932-16

BEST AVAILABLE COPY

THE FEDERAL BUILDINGS PROGRAM: AUTHORIZATION AND BUDGETARY ALTERNATIVES

June 1983

Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise noted, all years referred to in this paper are fiscal years.

Estimates in the text and tables could be made obsolete by the forthcoming release of the General Services Administration's new five-year plan.

PREFACE

Current interest in reducing long-term federal costs has given rise to several recent legislative proposals designed to improve program accountability and cost disclosure for the General Services Administration's federal buildings program. Concern for strengthening program review, reducing future requirements, and assuring an appropriate level of federal construction and ownership of work space have been the focus of these proposals. This paper, undertaken at the request of the chairmen and ranking minority members of the Senate Committee on the Budget and the Senate Committee on Environment and Public Works, provides an analytical basis for the Congress' consideration of changes in the buildings program. The paper addresses various specific questions raised by the committees and presents additional background information.

Earl A. Armbrust, William A. Isaacson, and R. Mark Musell of the General Government staff of CBO's Office of Intergovernmental Relations prepared the paper under the general supervision of Stanley L. Greigg. Numerous staff members of the General Services Administration also provided essential information. Special thanks go to Johanna Zacharias, who edited the study with the assistance of Nancy H. Brooks, and to Mary Pat Gaffney, who typed the various drafts and prepared the paper for publication. In keeping with CBO's mandate to provide objective analysis, the study offers no recommendations.

Alice M. Rivlin
Director

June 1983

CONTENTS

		Page
SUMMARY		xi
CHAPTER I.	INTRODUCTION	1
	Plan of the Study	2
	Overview of the Federal Buildings Program	2
CHAPTER II.	SHORTCOMINGS IN THE DECISIONMAKING PROCESS AND ALTERNATIVE APPROACHES	11
	Planning and Authorization Problems	12
	Appropriation and Cost Measure Problems	15
	Policy Options	17
CHAPTER III.	BUDGET HISTORY AND FUTURE REQUIREMENTS	25
	History and Trends	25
	Future Requirements Under the Current System	32
	Alternative Planning Assumptions	34
CHAPTER IV.	LEASING VERSUS NEW CONSTRUCTION	41
	Recent Legislative Background	41
	Budgetary Biases that Favor Leasing	42
	Biases in Cost Comparisons	44
	The Economies of Federal Ownership	49
	Policy Options	58
APPENDIX A.	BUDGETARY ESTIMATES OF COMBINING SELECTED OPTIONS FROM PENDING LEGISLATION	65
APPENDIX B.	TECHNICAL CHANGES TO RECORD GROSS FBF OUTLAYS	69

TABLES AND FIGURE

		Page
TABLE 1.	DISTRIBUTION OF FEDERAL BUILDINGS AND EMPLOYEES HOUSED, BY TYPE OF SPACE AND OWNERSHIP, 1982	3
TABLE 2.	COST COMPONENTS FOR THE FEDERAL BUILDINGS PROGRAM, 1982	7
TABLE 3.	COST TRENDS FOR FEDERAL BUILDINGS, BY MAJOR PROGRAM COMPONENT, 1976-1982	26
TABLE 4.	FEDERAL BUILDINGS FUND INVENTORY AND SPACE UTILIZATION, 1976-1982	27
TABLE 5.	ESTIMATED BASELINE COSTS FOR FEDERAL BUILDINGS FUND, 1983-1988	33
TABLE 6.	ESTIMATED SAVINGS UNDER ALTERNATIVE PLANNING ASSUMPTIONS FOR GOVERNMENT WORK SPACE, 1984-1988	36
TABLE 7.	ESTIMATED CUMULATIVE GSA DISBURSEMENTS FOR CONSTRUCTION AND OWNERSHIP VERSUS LEASING FOR A TYPICAL PROJECT OF 285,000 NET SQUARE FEET	51
TABLE 8.	INCIDENCE AND DEGREE OF PRESENT-VALUE SAVINGS FROM CONSTRUCTING RATHER THAN LEASING UNDER SIX DISCOUNT RATES	55
TABLE A-1.	PROJECTED GOVERNMENT-WIDE FBF BUDGET ESTIMATES UNDER THE CURRENT SYSTEM, 1984-1988	66
TABLE A-2.	PROJECTED BUDGET ESTIMATES FOR NEW FBF FINANCING, 1985-1988	67
TABLE A-3.	DETAIL OF PROJECTED GOVERNMENT-WIDE FBF REQUIREMENTS UNDER NEW FINANCING, BY BUDGET FUNCTION	68

TABLES AND FIGURE

		Page
TABLE B-1.	EXAMPLE OF CHANGES IN ACCOUNT STRUCTURE THAT REFLECT GROSS FBF OUTLAYS	70
FIGURE 1.	IMPUTED COST OF RISK IN PRIVATE-SECTOR BORROWING FOR OFFICE BUILDINGS, 1963-1982	48

21-483 O - 83 - 2

SUMMARY

Under the federal buildings program, the General Services Administration (GSA) acts as the federal government's builder and property manager, overseeing an inventory of office, warehouse, and other space totaling some 230 million square feet. An estimated 880,000 civilian employees work in GSA-managed facilities, about half in government-owned space and half in space leased from the private sector. (The remaining 1.2 million federal civilian personnel work in special facilities, such as military installations, that lie outside GSA's property jurisdiction.)

Since the building program began in 1975, its annual costs have risen by more than two-thirds, from $1 billion to $1.7 billion today. Three activities account for 60 percent of program costs: **capital investment** in construction, repair, and alteration of facilities; **leasing** of space from the private sector; and **purchase contracting** for construction of space financed by agency borrowing from the private sector. Cost growth, along with concern for cost disclosure and program accountability, have drawn Congressional attention to three questions:

- **How could Congressional review of program costs and activities be strengthened?**
- **How could future leasing costs be reduced?** and
- **Should the government construct or lease the space it needs?**

CONGRESSIONAL DECISIONMAKING

As in many other federal programs, funding for space needs undergoes a two-part Congressional approval process--authorization and appropriation. Authorization for major projects under the aegis of the Senate and House committees on public works may be granted after review of prospectuses detailing project plans. Appropriation acts set limits on the level of commitments for the full program and for each of its major components, including new construction projects. Critics have cited deficiencies in both stages of the process.

Authorization Concerns

Authorizing committees review some 100 project prospectuses each year. Because prospectuses do not all come in at one time, they are difficult to rank in order of priority. This also makes the authorization process difficult to coordinate with the appropriations process, which is geared to preparation of annual appropriation bills. Deficiencies also appear in GSA's plans, which give no information on criteria for project priorities, on programmatic alternatives under different assumptions, or on the outlay effects of particular proposals.

Appropriations Concerns

Unlike other programs financed through direct appropriations recorded as budget authority, federal buildings program activities are financed by standard level user charges (SLUCs), rent-like fees collected from tenant agencies. These collections are deposited into the Federal Buildings Fund (FBF), an intragovernmental account from which funds are committed to program activities through the appropriations process. Program outlays are calculated as the difference between payments to and from the fund. In the absence of budget authority, the cost of the federal buildings program is difficult to compare with other programs and to track within the budget process. Moreover, the netting of outlays results in amounts small enough to escape the Congressional scrutiny that full program spending levels would warrant.

Without budget authority, the FBF uses three cost measures to record SLUC income committed to various activities. **Budgetary obligations** record commitments entered into under each program activity; **new obligational authority**, which appears as limiting language in appropriation acts, sets an upper bound on new commitments under the program; and **total obligational authority** represents the upper bound on total program commitments--those under new authority and those carried over from past years. Because obligations and obligational authority recorded for leasing and purchase contracts in any given year cover only that year's required payments, full program requirements--including payments required in future years--are difficult to assess. Obligations for construction, on the other hand, record total commitments for a project in the year the contract is awarded. This impedes comparing one activity against others in setting program priorities.

Policy Choices

The Congress is considering several modifications to the current system to strengthen its control over the federal buildings program and to

NTENTI
BLA

NTIONAL
LANK

improve decisionmaking. As always, the Congress could continue the current system, which, by netting outlays, tends to insulate acquisition decisions from short-run budgetary consideration.

Option 1—Establish Annual Authorization and Planning. Public works committees could report annual authorization bills for consideration by the entire Congress. Such a process would encourage assigning priorities to projects, improve long-term planning, and assist in coordinating with the work of the appropriations committees. Critics would oppose including the entire Congress in the authorization process, fearing both the complications associated with another layer of decisionmaking and also possible project trading. Such critics would also contend that the setting of annual limits in appropriations acts offers ample opportunity for controlling the FBF.

Option 2—Require Full Funding of Multi-Year Leases. The budget could account for the full costs of multi-year leases in the year of contract award. If implemented in 1985, this accounting change would result in a one-time increase in obligations of some $3.4 billion, reflecting distant out-year commitments under existing leases. If limited to new leases only, the first-year increase would fall to $0.7 billion. This option would allow better recognition of the program's full demands on federal resources, but it would require additional funding. Critics would note that the current system has the advantage of allowing for the association of costs concurrently with the use of the resources, and that, under full funding, strong disincentives to multi-year leasing could arise.

Option 3—Establish Budget Authority. The FBF could be restructured to show budget authority either by recording the use of SLUC income as budget authority in the FBF account, or by eliminating this financing system altogether in favor of direct appropriations. Either approach would facilitate both the weighing of FBF program costs against other demands on the budget and the tracking of the program within the budget process. Critics would contend that the current system provides sufficient program control. With regard to abolishing the SLUC system in favor of direct budget authority, they could claim that, in light of current budgetary contraints, the present system encourages agencies to economize on space.

Option 4—Show Gross Outlays. Restructuring the FBF account to show gross outlays rather than budget authority, would facilitate strengthening Congressional control over the account without making changes in SLUC financing or the appropriations process necessary. The accounting changes, requiring a shift of building outlays from operating agencies to the FBF account, would result in a one-time increase in FBF outlays, offset by corresponding reductions in the outlays of tenant agencies. Critics would charge that the accounting changes required by the option are too unconven-

tional, and that creating budget authority is a more straightforward approach to strengthening Congressional control of the FBF.

BUDGET HISTORY AND FUTURE REQUIREMENTS

Annual federal buildings fund requirements--having risen by $0.7 billion since 1976--are driven primarily by factors largely beyond the control of GSA. For leasing--the program's largest activity--growth totaled about 65 percent over the period, 1976-1982. Growth for all program components primarily reflects rising costs of the goods and services that GSA purchases. Overall, the program shows little real growth. Nonetheless, program costs for leasing and other activities and planning strategies to determine future requirements are still of concern to the Congress.

Future Requirements

Assuming no appreciable change in the number of personnel requiring office space or in the amount of space assigned to each worker, the inventory of all types of space would decline slightly over the coming five years, from the present 230 million square feet to 223 million. The decline would result from disposal (that is, sale as surplus) of obsolete storage and other facilities. New obligational authority would rise by about 60 percent, from $1.9 billion to more than $3 billion, primarily reflecting increased unit prices. Within these totals, each major component of the program would show growth, as would SLUC income.

Among the major program activities, annual capital investments are projected to show the largest growth--more than 200 percent, or $0.5 billion, because of expected increases in SLUC collections. Lease costs will rise some $0.4 billion, or about 50 percent, reflecting inflation, changes in the composition of the inventory, and renegotiated leases. As projects now under construction are completed, the portion of the federal inventory consisting of owned office space will increase slightly to just above 56 percent over a ten-year period.

Alternative Planning Assumptions

According to recent GSA plans, future FBF requirements will accommodate significant reductions in the size of the federal civilian work force and in the amount of space assigned to each worker. Despite the attraction of potential savings, the adoption of the planning assumptions is precarious, because the Administration forecasts a relatively stable personnel level in

the next three years, and because, in the past, improvements in the efficient use of space have been difficult to achieve. The potential effects of the GSA planning assumptions--relative to a Congressional Budget Office baseline assuming constant work force and space use--are described below.

Assumption 1—Reduction in Workforce Size. The GSA's space acquisition plans assume a 12 percent reduction in the work force housed in GSA-managed buildings. Despite the potential savings in the federal buildings program, the Administration projects a stable personnel level for the near term, reflecting such considerations as program maintenance. If employment reductions of the magnitude projected by GSA should materialize, office space requirements would decline by 16 million square feet, resulting in cumulative five-year savings of $0.7 billion.

Assumption 2—Reduction in Space per Worker. Consistent with recently issued regulations, this plan assumes the gradual implementation of a 19 percent, or 32-square-foot, reduction in space assigned to each worker. Application of the new 135-square-feet-per-person standard would mean that requirements for office space would decline by some 26.4 million square feet, generating cumulative savings of $1.2 billion through 1988. This option could disrupt agency operations and adversely affect worker morale, however, and experience indicates strong central direction would be required to achieve such efficiencies. Recent GSA efforts, and budgetary pressures, have already led to some reduction in space.

Assumption 3—Reduction in Work Force and Space per Worker. If the Congress or the Administration should adopt both the work force and space use reductions described above, estimated requirements for office quarters would drop by 39 million square feet, representing a 28 percent reduction. Savings over five years would accumulate to $1.8 billion. Serious operating problems might result, however, if FBF budgetary planning assumed work force and space efficiency targets that were not achieved.

LEASING VERSUS CONSTRUCTION

Critics have charged that GSA's current system for office space acquisition biases decisions in favor of leasing. In the short term, construction is obviously a costly way to acquire space, and indeed, construction costs are higher to the federal government than to private-sector developers because of regulations and mandates that attend the expenditure of federal monies. In the longer term, however, for the government to build and own its facilities often offers opportunities for significant economies. The CBO analysis confirms that the decisionmaking procedures do indeed favor leasing, however, and that some long-term

economies of construction and ownership are not being realized. Of course, other factors--such as the space management flexibility afforded by leasing or the opportunity to control building design through federal construction--may play as important a role in space acquisition decisions as economic factors do.

Structural and Fiscal Constraints that Bias Decisions Toward Leasing

Budgetary biases under current practice result from two sources: the structure of the FBF account, and the pressures of fiscal considerations. The structure of the FBF account has been cited as biasing decisions toward leasing primarily for two reasons. First, unlike budgetary accounting practices for construction, total long-term costs under lease contracts are not recorded in the year such contracts are awarded. In the short run, therefore, leasing presents the more attractive alternative; costs (obligations) are spread out, imposing smaller immediate demands on fund resources. Second, because program levels are limited by SLUC collections, changing the mix of owned and leased space becomes difficult. In fact, the resources available since the creation of the FBF could not have covered the higher level of commitments that would have been required to accommodate less leasing.

Regardless of how obligations are recorded, decisions in favor of leasing may result from a desire to minimize short-run government spending. Leasing always results in substantially lower near-term outlays than construction. Further, for lack of well-established long-range planning, unanticipated space needs have often been met through leasing rather than construction, because rented space is usually available on short notice.

Cost Comparison Biases

Before space acquisition requests are submitted to the Congress, the Office of Management and Budget (OMB) requires GSA to prepare a present-value comparison of alternative methods for obtaining space. Present-value analysis permits comparison of the cost advantages and disadvantages associated with different methods of acquisition, adjusting fully for the different timing of expenditures. (Construction, for example, requires greater near-term commitments than leasing.) To make a fair comparison, costs should be reduced to a common basis. This is important because the earning power of money changes over time: a dollar available today is worth more than one available tomorrow; and conversely, waiting to spend a dollar later provides an opportunity to put it to other uses.

Choosing a Discount Rate--Various Approachs. The discount rate, a key factor used to compare outlays incurred in different years in the present-value comparisons, represents a real interest rate, or rate of return, used to value the resources available or forgone under different methods of obtaining space. Issued in 1972, OMB guidelines, prescribe a rate of 7 percent, based on an estimated rate of return on general purpose real property leased from the private sector. The General Accounting Office (GAO) has claimed that the rate is too high, biasing comparisons in favor of leasing. (High discount rates disproportionately reduce dollars spent in the future, thus lowering the cost of leasing compared to construction, with its higher near-term costs.) According to GAO, a lower rate based on long-term Treasury borrowing costs represents a more appropriate measure, because a discount rate should reflect the value of federal, not private-sector, resources. This approach is appropriate if the government acts like a private investor to maximize its internal financial position rather than the efficient allocation of resources in the economy as a whole.

Under the GAO approach, however, an incongruity emerges. Rental rates on a lease include investor's borrowing costs; if discounted using generally lower federal borrowing rates, the result is an overstatement of leasing costs. An appropriate rate must discount the real cost of capital actually experienced in the private sector, since that is the alternative use of resources regardless of how space is acquired.

An Alternative Approach. Treasury borrowing rates are lower than private rates of equal maturities, because private enterprises are subject to a greater risk of failure. Adding a risk charge to federal borrowing rates would help correct the incongruity noted in the GAO approach. The CBO analysis of historical data (1963-1982) shows that, when real federal borrowing rates incorporate an average risk factor, a discount rate of 3 percent seems appropriate. The alternative CBO rate, which reflects borrowing costs rather than rates of return, is considerably lower than the present OMB rate. The OMB rate creates incongruities of its own, however, because it overstates the costs of borrowing that are implicit in leases. A correct rate should approximate real borrowing costs actually experienced in the private sector.

The Economies of Construction

Despite the short-term outlay advantages of leasing, construction generally requires smaller long-term budgetary expenditures from the FBF account. Measured over a building's useful life, construction of a typical large project requires 40 percent less in FBF outlays than leasing a facility of comparable size and location. Such comparisons, however, disregard both

21-483 O - 83 - 3

the fact that expenditures occur over different time periods and that federal buildings have a residual value to the government. When comparing present values, construction still appears more economical in many cases. The CBO analysis indicates that over the last 20 years, real Treasury borrowing rates, adjusted for risk, almost always remained well below 5 percent. According to CBO and GSA, present-value analysis incorporating discount rates at such levels will reveal construction to be the more economical alternative most of the time, although a mix of leasing and construction would still be the optimal investment strategy.

Policy Choices

In view of its concern regarding biases toward leasing, the Congress might take several actions, some modeled after past legislative proposals, that would modify the current system.

Option 1—Adopt a Lower Discount Rate. Little consensus exists concerning an appropriate discount factor for FBF cost comparisons. This option would mandate a 3 percent discount rate as a substitute for the 7 percent rate used according to OMB stipulations. (As borrowing experience changes over time, a different rate might appear more appropriate.) The 3 percent rate would reflect average real Treasury borrowing costs and a factor for risk. Consequently, the portion of cost comparisons favoring construction would rise from 34 percent of all comparisons to 64 percent, and average present-value savings for construction, relative to leasing, would increase from 9 percent to 30 percent.

Proponents of a 3 percent discount rate would argue that discount rates based on borrowing rates with a risk factor offer the best method of determining the most economical space acquisition choice. Some critics might favor lower rates based solely on Treasury borrowing, while others might favor higher rates based on estimated returns in the private sector. Others would point to the advantages of the reduced near-term outlays required by leasing. In their view, a more direct approach for achieving savings would be to reduce the much higher costs of federal versus private-sector construction, although this emphasis could be implemented no matter what discount rate was selected.

Option 2—Establish a Statutory Inventory Mix. This option would adopt a target requiring an increase from about 50 percent to 80 percent in the portion of employees housed in government-owned facilities. This would necessitate constructing an additional 18.6 million square feet of office space over five years. Proponents would find this approach a simple, direct way of dealing with lease bias. The widely varying results of cost compari-

sons for projects of different sizes and localities, however, underscores the danger of setting targets for space. Near-term outlays would increase by $1.3 billion; and in the long term, overall costs, measured in present-value terms, could rise by nearly one-third. These costs might decline, however, if reductions in work force size or space use were achieved, or if commercial buildings could be purchased on terms advantageous to the government.

Option 3—Authorize FBF Borrowing. This option would provide authority for the FBF to borrow additional resources from the Treasury, subject to appropriations by the Congress. Access to additional funds, would mean that the level of construction would not be restricted by SLUC income, removing that source of bias against construction. The CBO estimates that such borrowing, if provided in 1984, could average as much as $0.5 billion a year through 1988. This option would improve program accounting and facilitate review of the FBF program within the Congressional budget process, although it could at the same time increase federal spending. Critics claim that intragovernmental borrowing represents an unnecessarily complex solution, especially when budgetary restraints will likely restrict the level of construction despite a new source of funding.

CHAPTER I. INTRODUCTION

Under the federal buildings program, the General Services Administration (GSA) acquires and manages office space, warehouses, and other public buildings across the nation. In 1982, these facilities provided an inventory of some 230 million square feet of space, for use by about 880,000 federal civilian workers--or about 40 percent of the total civilian work force employed by various departments and agencies. More than one-fifth of that inventory is used to carry out programs of three agencies: the Internal Revenue Service, the Social Security Administration, and civilian functions of the Department of Defense. 1/ Approximately half of all federal personnel occupying GSA-managed facilities are situated in buildings that the government owns outright; the other half work in space leased from private-sector landlords. 2/

Costs for federal buildings, both government-owned and leased, have been rising steadily. Between 1976 and 1982, costs are reported to have risen from just over $1.0 billion to about $1.7 billion. 3/ By 1988, costs may reach $3.1 billion, according to estimates by the Congressional Budget Office. This growth, along with concerns about cost disclosure and program

---

1. Certain types of special federal facilities, such as hospitals, prisons, laboratories, and military installations, lie outside GSA's jurisdiction. Altogether, these provide space for some 1.2 million civilian workers--mainly employees of the Department of Defense, the Veterans Administration, and agencies engaged in research and development, energy production, or field operations for natural resources programs.

2. Statutory authority for leasing derives from the Federal Property and Administrative Services Act of 1949. Authority for purchasing and constructing facilities derives from the Public Buildings Act of 1959. For legislative history of the federal buildings program, see Virginia A. McMurtry, Public Buildings Policy: Alternatives for Reform, Congressional Research Service Issue Brief (May 13, 1982).

3. Derived by the Congressional Budget Office from data supplied by the General Services Administration.

accountability, has given rise in the last few years to a series of legislative proposals to change the authorization and budgeting procedures for GSA's public buildings program. Four main issues surround the various proposals: the level of capital investment for construction of government-owned facilities; the recognition of multi-year cost commitments; the mechanics for exercising Congressional control; and possibilities for reducing costs, especially in the long run.

PLAN OF THE STUDY

In response to these concerns, this paper considers the following questions:

- How could Congressional review of program costs and activities be strengthened?
- What strategies could reduce the future requirements of the federal buildings program for leasing and other activities?
- Is the present system biased toward satisfying federal space requirements through leased rather than owned facilities, and if so, is the government failing to capture long-term economies realizable from ownership? And, should more emphasis be given to federal capital investment for construction?

The remainder of this chapter gives an overview of the federal buildings program, covering space acquired and managed by GSA, methods of financing, cost measures, and major program components. Chapter II describes the current authorization and appropriations processes by which the Congress exercises control over the buildings program. Chapter III reviews budgetary history and sets out projected requirements. Chapter IV examines factors influencing GSA decisions to lease or build required space. Chapters II, III, and IV each analyze alternative choices for dealing with the concerns they describe.

OVERVIEW OF THE FEDERAL BUILDINGS PROGRAM

About three-fifths of the inventory of space made available by GSA to various federal departments consists of office space (see Table 1). The remaining space includes warehouse and storage areas, as well as such specially designed facilities as federal courthouses, regional data processing cen-

TABLE 1. DISTRIBUTION OF FEDERAL BUILDINGS AND EMPLOYEES HOUSED, BY TYPE OF SPACE AND OWNERSHIP, 1982

Type of Ownership	Total	Office	Storage and Warehouses	Special Facilities	Office as Percent of Total
	Millions of Occupiable Square Feet				
Leased a/	91.2	68.9	14.2	8.1	(76)
Government-owned	138.7	74.0	44.3	20.4	(53)
(As a percent of total)	(60)	(52)	(76)	(72)	--
Total	230.0	142.9	58.5	28.5	(62)
	Thousands of Personnel Housed				
Leased	431.4	407.2	3.0	21.2	(94)
Government-owned	447.5	413.3	4.8	29.4	(92)
(As a percent of total)	(51)	(50)	(62)	(58)	--
Total	878.9	820.5	7.8	50.6	(93)

SOURCE: Congressional Budget Office from data supplied by General Services Administration.

NOTE: Detail may not add to totals because of rounding.

a. Includes small amounts of space leased from the U.S. Postal Service, an independent federal enterprise treated as an off-budget entity.

ters for the Internal Revenue Service, some postal facilities, and border stations for various enforcement and inspection activities.

The relatively large requirements for office space, both government-owned and leased, emerge from numerous decisions that affect both the size of the federal work force and the amount of space assigned to each worker. Each employee now occupies an average of 166 square feet of GSA-managed office space, although the exact figure varies for different agencies, activities, and building designs. The Federal Buildings Fund (FBF) program, established in 1972, uses a unique system to finance this inventory and to measure the costs of major program components.

The Role of User Charges in Financing the Federal Buildings Program

Unlike many other programs, which are financed through direct Congressional appropriations that are recorded as budget authority, the various activities of the federal buildings program are funded mainly through collection of fees that are tantamount to rents. Referred to as Standard Level User Charges (SLUC) and instituted in 1972, these fees are levied on the individual federal agencies occupying any GSA-managed space, leased or government-owned. 4/ The SLUC rates, altogether generating some $1.8 billion in 1982, are intended to approximate charges for private-sector space of comparable type, location, and quality.

The U.S. Treasury pays the costs of the GSA buildings program, regardless of whether those costs go for construction and improvements of government-owned property or for rents to private-sector landlords, and regardless of how those costs are recovered. Thus, they represent one use of federal income tax receipts and one component of the federal deficit. Indeed, SLUC funding is merely an internal method of accounting for the program within the federal budget. The SLUC collections are deposited into an intragovernmental account, the FBF, from which funds are committed to the various program components. Budget authority for these SLUC revenues resides not in the commitments made by the fund, though, but in the numerous agencies from which the revenues are collected. As a result, the GSA buildings program is difficult to compare with others throughout the budget process.

At present, SLUC rates for each FBF facility are adjusted once every three years on the basis of appraised prevailing rates in local markets. Annual appraisals cover about one-third of the inventory each year, and tenant agencies may appeal the resulting user charges to GSA. In the two interim

---

4. In addition to SLUC payments, federal agencies reimburse GSA for certain special services (such as special alterations or extra security coverage); these activities are not considered in this study.

years, rates are adjusted according to both general rent increases reported by building owners and managers and to changes in inflation as measured by the Gross National Product (GNP) Deflator. Adjusted SLUC rates must be approved by the Office of Management and Budget (OMB), and they may be further modified by the Congress through language contained in annual appropriation acts. 5/

User-charge financing was adopted as a proper means to account for facility costs as part of agency operating expenses and to encourage economies in the amount of space used. In addition, by tying the federal buildings program to available SLUC income, GSA was expected to operate in a businesslike manner and to increase the resources available for both accelerated construction of public buildings and improved quality of building services.

Cost Measures and Major Program Components

To record program costs, the intragovernmental account used for funding GSA's federal buildings program relies on several measures: obligations, new obligational authority, and total obligational authority. A fourth measure, budget outlays, is also found in the FBF account but reflects the combined flow of income and outgo to and from the account, and it is not assigned to specific program components. These four cost measures are described in the box on the following page.

On the basis of obligations reported for 1982--that is, orders placed, contracts awarded, or services received--about 60 percent of the federal buildings program goes to acquire or improve physical facilities (see Table 2). 6/ The remainder covers facility services for the operation of owned and leased space and overall program direction that, together, are carried out by some 13,000 federal workers.

---

5. In 1975, the first full year of the FBF program, OMB reduced the GSA-proposed rates by 13 percent, and the Congress reduced them by another 10 percent. In the second year, the Congress again reduced the GSA-proposed rates by 10 percent. Most recently, under the Further Continuing Appropriations Act of 1983, SLUC rates in 1983 were frozen by Congress at their 1982 levels.

6. This category covers three types of activities: construction, repair and alteration, purchase contracting for government-owned buildings constructed before 1983, and rent of commercial space.

21-483 O - 83 - 4

COST MEASURES USED FOR FEDERAL BUILDINGS FUND

Obligations. Though the most widely used measure of FBF program levels, obligations may reflect only a small share of program levels. Obligations recorded represent amounts committed by the government to cover federal workers' payroll costs or the costs of contracts for services, facilities, and supplies purchased from the private sector. Obligations of the FBF can include payments due in any given year but not those that may, under contract or some other arrangement, be owed in other years.

New Obligational Authority. New obligational authority, distinct from obligations representing actual program commitments, sets a limit on the level of FBF activity. This measure represents authority contained in annual appropriations acts for GSA to enter into new obligations. Though not recorded as an appropriation or as budget authority, new obligational authority, consistent with those measures, establishes a limit that governs program levels, including line items of new capital improvements that GSA may undertake. Not all of the new authority may be completely obligated in the year funded. In the case of building construction, repair, and alteration, unused authority may carry over for use in future years because of the lead time needed for site selection and acquisition and for preparation of building plans. Obligations and new obligational authority thus occur over different time periods, and estimates based on one measure will seldom coincide with those based on the other.

Total Obligational Authority. This cost measure, used in various supporting tables in the appendix to the President's budget and in detailed justifications submitted by GSA to the appropriations committees, represents an upper limit on the total authority for GSA to obligate funds. It can include certain unused authority carried over from prior years for construction, repair, and alterations projects and enactment of any new obligational authority. Again, however, actual obligations will seldom be committed to an authorized level, and thus comparison between the different measures is difficult to make.

Outlays. The budget outlays recorded for the FBF account during the reporting period represent the difference between fund income from standard level user charges and gross disbursements for bills paid to meet FBF costs. (For most public works projects, the cost of any single contract obligation by GSA may be disbursed by payments to the contractor over several years.)

TABLE 2. COST COMPONENTS FOR THE FEDERAL BUILDINGS PROGRAM, 1982

Cost Category and Components	Obligations (In millions of dollars)	Percent of Total
Facility Acquisition and Improvement		
Construction, repair, and alteration of buildings	190.7	11
Purchase contract payments	156.2	9
Rental of space	706.4	41
Subtotal	(1,053.3)	(61)
Services and Program Direction	681.6	39
Total	1,734.9	100

SOURCE: Congressional Budget Office from data in the Appendix to the Budget of the United States Government, Fiscal Year 1984, p. I-V44. (Estimates exclude merged account for construction services.)

Construction, Repair, and Alterations. In 1982, contracts awarded in the construction, repair, and alterations category totaled about $190 million--with about one-fifth directed toward construction (including site acquisition and architectural plans) and the remainder directed toward repair and alterations. Obligations in this category represent total payments required by specific contracts, regardless of when disbursements are actually to be made. Recorded obligational authority, by contrast, represents the sum of payments for contracts (including those not yet signed) necessary to undertake a project budgeted for a particular year. Cost disbursements for a project (budget outlays) are spread over the period while the work is underway--usually three to five years, depending on the scope of the project and schedule of contracts. This approach contrasts sharply with capital budgeting methods used by many private firms, some state and local governments, and a few federal enterprises such as the Tennessee Valley Authority

and the U.S. Postal Service. In such cases, budget officers use depreciation schedules to spread the cost of improvements over the project's expected useful life.

Purchase Contract Payments. A purchase contract (PC) is a simple concept whereby agency borrowing from nonfederal sources is used to finance construction of government-owned buildings. Several different types of PCs were used by GSA before the authorization expired in 1977, and title for completed projects will pass to the government when the agency borrowing is repaid, with interest and real estate taxes, after 20 or 30 years. Under purchase contracts, some $1.4 billion of financing was obtained for construction of 97 federal buildings. 7/ These projects, for the most part started in the 1970s, have added some 15 million square feet of space--about 6.5 percent--to the GSA inventory. (The last projects financed by PCs were completed in June 1982.)

The obligations recorded in the budget for purchase contract projects--some $156 million in 1982--reflect the amount of principal, interest, taxes, and administrative expenses being paid each year. The accounting for costs of purchase contracts differs in three important respects from that of construction, repair and alteration. First, interest payments are charged to the FBF rather than to the Treasury's account for interest on the public debt. Thus, interest costs of the program are more directly associated with the activity that gave rise to them.

Second, the estimates of obligational authority are the same in concept and amount as estimates of obligations incurred. Consequently, the various measures of budget obligations for annual PC payments do not record the full cost commitment incurred by the government at the time GSA

---

7. The General Accounting Office has concluded that the use of PCs, rather than direct financing, cost the government an additional $1.4 billion. The extra cost shrinks to about $0.8 billion if converted to constant dollars. Only a small portion of the additional expense reflects an estimated higher cost of borrowing from off-budget sources, while more than 90 percent reflects local real estate taxes paid during the term of the PC and thus represents a shift of cost from one level of government to another. In contrast to PC funding, directly funded projects are not usually subject to real estate taxes at any time, and thus, most of the extra cost falls on local governments as revenue foregone, rather than as obligations of the federal government. For a discussion of PC financing, see General Accounting Office, Costs and Budgetary Impact of the General Services Administration's Purchase Contract Program (October 17, 1979).

entered into contracts, and the future demands PC financing places on the budget are not fully recognized. (Such information is derivable from supporting material included in the budget information submitted by GSA to OMB and to the Congress.)

Finally, costs are spread over a much longer period than under conventional construction financing. Because obligations represent payments on principal and interest, they are commonly spread over a 30-year period, rather than a three- or five-year period, for projects under the construction, repair, and alteration activity. Consistent with common private-sector practice, this means that costs are spread over the useful life of a project.

Rental of Commercial Space. In 1982, GSA leased some 91.2 million square feet of occupiable space from the private sector at a recorded cost of $706.4 million. 8/ Office space accounts for about three-fourths of the lease inventory, with warehouse and other storage space accounting for most of the remainder (see Table 1).

Because the government is a relatively stable tenant, GSA can make extensive use of multi-year contracts for leased space. According to December 1982 data, about half of the total annual rent paid by GSA meets requirements under leases that have fixed terms of longer than five years. This distribution of the total leased inventory has remained relatively constant since 1978 with regard to contracts with terms of five or fewer years; the portion with four- to five-year terms has increased, while the portion with one- to three-year terms has somewhat declined. The distribution by lease term may vary significantly for new leases entered into in any given year. In 1982, for example, nearly one-fourth of the new space leased was acquired under contracts with more than five-year terms, usually ten years and longer.

The obligations recorded in the budget for GSA leases represent the cost of rent paid during the year. As under purchase contracting, costs are thus associated with the amount of space entered into the federal buildings inventory--a kind of "pay-as-you-use" accounting. Thus, the cost measures of obligational authority and obligations incurred for leasing are essentially the same. As such, obligations do not recognize the full contractual com-

---

8. In some cases, GSA leases space from the U.S. Postal Service or other government organizations or from a private firm that owns a building constructed according to government specifications. Both types of leases are included in the estimates of leased space used in the CBO analysis.

mitment of funds that multi-year lease contracts represent. As with purchase contracting, the annual appropriation acts limit the total amount of funds that may be obligated for annual rental payments in any given year.

CHAPTER II. SHORTCOMINGS IN THE DECISIONMAKING PROCESS AND ALTERNATIVE APPROACHES

Under the Public Buildings Act of 1959, as amended, the Congress exercises control over the federal buildings program primarily through a two-part process of authorization and appropriation. (Oversight hearings always provide a further opportunity for Legislative Branch review.) Some critics believe that this framework for Congressional decisionmaking could be significantly strengthened. Specific complaints fall in two general areas:

- Deficiencies in the planning and authorization process that work against setting internal FBF priorities for the Federal Buildings Fund and considering major program issues; and
- Inadequate cost measures that impede evaluating long-term cost commitments and setting funding priorities, both within the FBF program and in comparison with other programs throughout the entire federal budget.

The advent of the Congressional budget process in 1974 and since that time, mounting concern with reducing federal budget deficits have given rise to current interest in strengthening the mechanics for Legislative Branch control over the level and direction of federal buildings program spending. The first half of this Chapter gives a brief overview of the current system and of the basis for criticisms of that process. The second half reviews several modifications of the current system that the Congress might want to consider.

The Current Process

Under current law, funding for space acquisitions costing more than $500,000 are first authorized by resolutions adopted by both the Senate Committee on Environment and Public Works and the House Committee on

Public Works and Transportation. 1/ A proposal for any such project is submitted to both committees in the form of a detailed prospectus. Each prospectus is prepared by GSA after completion of a space utilization survey for a particular location and after review by officials at regional and national headquarters. The prospectus proposal also reflects decisions (described in Chapter IV) about whether the space requirements should be satisfied by leasing commercial facilities or by constructing federal buildings. (Most of the prospectus proposals are initiated by GSA, but in some cases, the Senate and House public works committees may require GSA to submit a report on agency space needs in a particular area.)

The annual appropriation part of the process sets limits on the expenditure of funds from the intragovernmental FBF account. These limits, expressed as new obligational authority (analogous to budget authority in other programs), specify the level of commitments for the FBF program as a whole, as well as for its major components, including individual public works projects. (Within the leasing component, amounts are not earmarked for specific projects.)

In the absence of budget authority--the traditional responsibility of appropriations committees--the Senate and House Committees on the Budget look mainly to authorizing committees for most spending recommendations and incorporate net outlays of the fund in recommended budget resolutions. Budget resolutions set expenditure levels for broad categories ("functions") of federal spending such as national defense, income security, and transportation. The FBF account is incorporated in the outlay allowance for general government, identified as Budget Function 800.

PLANNING AND AUTHORIZATION PROBLEMS

Authorizing committees receive an average of 100 or more prospectuses each year. 2/ According to reviews by the General Accounting Office and other analysts, the authorizing committees continue to have difficulty in ranking FBF projects in any order of priority and in reviewing overall

---

1. The $500,000 limit for exemption of small projects from prospectus authoriziation was last amended in 1972. If the exclusion were adjusted for subsequent inflation, the cost threshold in 1983 dollars would be about $1.4 million for construction, repair, and alterations and about $1.1 million for leasing.

2. See McMurtry, Public Buildings Policy, p. 4.

program policy for three reasons: a well-established planning system is lacking; prospectuses are sometimes submitted one by one; and the authorization and appropriation processes are not effectively integrated. 3/

Long-range planning at GSA is still in a formative stage. Under current practice, it is most difficult for authorizing committees to consider the FBF program within the spending targets set by the budget process or to consider alternative plans that would reduce costs in either the short or long term. At present, long-range plans prepared by GSA consist mainly of various lists and summary descriptions--some covering more than 80 pages--of individual projects proposed for construction, acquisition, repair, alteration, and leasing. 4/ Although the projects proposed within each of these categories are listed in order of priority, no information is provided to ascertain or evaluate the basis used in the ranking. Furthermore, although the GSA planning document describes the basic assumptions on which overall inventory requirements are projected, it is not intended to facilitate the cost or program implications that would result if key assumptions--such as changed employment levels or improved use of space--proved incorrect. Finally, the GSA's planning documents do not identify the budgetary outlay estimates of its proposals or the regional effects of major projects.

Inadequate planning has led to unanticipated space requirements that are difficult to meet through construction because of the lead time involved. This has fueled Congressional concern about the GSA's reliance on leasing. Even with more comprehensive information, however, authorizing committees would find it almost impossible to weigh projects' relative merits because prospectuses are submitted one at a time throughout the year. According to the latest published long-range plan, about 90 projects proposed for funding in 1983 require approval by the public works committees in both houses.

In certain other direct public construction programs, such as those of the Bureau of Prisons, authorization proposals are generally packaged together and submitted once each year for Congressional consideration. In the past, authorization of FBF activities, by contrast, has required numerous independent actions. The GSA has recently attempted to submit with the

---

3. See General Accounting Office, Foresighted Planning and Budgeting Needed for Public Buildings Program (September 9, 1980).

4. See, for example, General Services Administration, Public Buildings Service Management Plan for FY 82-88, vol. 1, 1982.

21-483 O - 83 - 5

President's Budget, the prospectuses necessary to fulfill annual public construction needs. These attempts have been partly successful, but prospectuses are still often submitted one by one. This process also contrasts with appropriations committees work, which is geared to preparation of annual appropriations bills; consequently, the two processes are difficult to coordinate. In many instances, projects will remain for years authorized but unfunded--which compounds the difficulty of creating rational public buildings budgets. The delays that characterize the current process often compel the Congress to reconsider past actions as prospectuses become outdated.

The scope of federal buildings activities requiring authorization under current law causes other problems. The present prospectus process covers only a portion of all annual costs budgeted for the federal building program, even though the authorizing committees are expected to submit recommendations to the Budget Committees for the entire FBF account. In the 1983 budget, for example, just over 50 percent of proposed new obligational authority for construction, repair, alteration, and leasing required no prior authorization for funding--because the estimated costs of numerous individual projects were less than $500,000. When purchase contract payments, facility services, and program direction are accounted for in the total program, about two-thirds of the 1983 federal buildings funding did not require authorization action according to the following estimates (in millions of dollars) of new obligational authority:

Program Components	Total Funding	Estimates	Percent
Capital investment for construction, repair and alterations	905	234 a/	57
Rental of space	806	678 b/	84
Subtotal (rounded)	(1,711)	(910)	(53)
Purchase contract payments	160	--	--
Facility services and program direction	772	772	100
Total (rounded)	2,643	1,682	64

a. Includes $224 million for projects under $500,000 and $8 million for acquisition of existing buildings.

b. Estimated amount for leases under $500,000.

So long as the authorization process is not directly linked to the entire FBF program, authorizing committee action may reflect unrealistic program levels, and a major part of FBF activity can escape review.

APPROPRIATION AND COST MEASURE PROBLEMS

The cost measures used in the FBF accounts give rise to difficulties in weighing internal priorities of the FBF program and assessing long-term cost commitments fully. In addition, the absence of budget authority makes comparing requirements for public buildings against other federal responsibilities problematic.

Cost Measures

The full, long-term commitments of the FBF program are difficult to assess, because the measures of obligations and obligational authority used for the FBF account do not record the full cost of multi-year contracts when GSA incurs those costs. In 1975, when the Congressional budget process was new, a similar concern arose over the budgetary treatment of obligations and budget authority for multi-year contracts with local public housing authorities entered into by the Department of Housing and Urban Development (HUD). In that case, Congress decided to fund the full cost of multi-year contracts in the year the contracts were awarded. This accounting change, increasing budget authority by $17 billion in 1976, was enacted to provide a more realistic disclosure of out-year program costs; it did not, however, change that year's level of HUD-assisted housing. 5/ Although in GSA's case, the issue is how, rather than whether, to acquire space, many of the same concerns about full cost disclosure of long-term commitments still apply.

---

5. For a brief discussion of the fiscal year 1976 change in funding multi-year contracts for federally-assisted housing programs, see U.S. House of Representatives, Conference Report accompanying H.R. 8070 (No. 94-502), September 23, 1975, pp. 7-8. The change in budgeting for the long-term costs of publicly-assisted housing has created certain difficulties arising from problems in forecasting changes in program costs. See Congressional Budget Office, The Long-Term Costs of Lower-Income Housing Assistance Programs (March, 1979).

Problems also arise because cost measures apply differently to different program activities. Though obligations for purchase contracts and leases are spread over the period a building is used (a kind of "pay-as-you-use" accounting), obligations for construction are recorded in total as a building is constructed. Also, though obligations for leasing and purchase contracts are equivalent to annual cash disbursements, obligations for construction represent commitments, regardless of when cash disbursements actually occur.

Appropriations

Legislation creating the current FBF budget structure in 1972 preceded establishment of the Congressional budget process. Budget authority for revenues from SLUCs resides not in the commitments made by the fund but in the numerous agencies from which the collections come. Consequently, the program itself operates without budget authority, and thus is difficult to compare with others during the budget process. Without budget authority, it is virtually impossible for the current annual budget resolution to take account of the impact of the current FBF program, or modifications under alternative planning assumptions.

The netting of funds into and out of the FBF account to compute outlays results in amounts so small that they usually receive little notice as a significant cost item. Instead of identifying gross costs for federal buildings, the FBF account shows negative 1982 outlays of $92 million--meaning only that collections from SLUCs and other sources exceeded gross disbursements by this amount. This masking, however, may help insulate space acquisition decisions from pressures to curb short-term federal spending.

The netting of intragovernmental payments within the FBF account avoids double counting of costs already included as budget authority and outlays in the budgets of individual tenant agencies for their SLUC payments to GSA, but it masks the full cash demand of the federal buildings program on the U.S. Treasury. In 1982, for example, FBF cash disbursements--outlays--were reported as a minus entry; but gross disbursements from the Treasury for federal building activities were just under $2 billion (as shown opposite). If gross, rather than net, amounts had been recorded for the FBF, 1982 outlays for the general government function of the budget would have been more than 40 percent higher.

Netting of FBF Outlays

Transactions	In millions of dollars
Gross current disbursements for salaries, contract payments, and other expenses	+1,991
Offsetting collections from SLUCs and other sources	-1,800
Reimbursements for special services and other adjustments	-283
Net outlays reported for FBF	-92

POLICY OPTIONS

The Congress is considering several modifications to the current system that could strengthen Legislative Branch control over the FBF program and improve decisionmaking. As is always the case, the Congress might decide to continue the current system, which nets FBF outlays to practically nothing and thus helps insulate the program from short-run budgetary pressures. Possible modifications to the current decisionmaking framework include the following:

- Require annual authorization and planning;
- Adopt full funding of costs for multi-year leases;
- Establish budget authority for the FBF program, either within the context of SLUC financing or as a substitute for it; and
- Restructure budget accounts to show gross outlays for FBF.

These alternatives to current procedures may offer some prospect of better decisions. They are not, however, designed to achieve budgetary savings,

and could, in fact, entail more, rather than less, spending for federally used property.

Option II-1--Establish Annual Authorization and Planning

An annual authorization and planning process, modeled after schemes advanced in the Senate several years ago, has been cited as a way to foster coherent and rational Congressional decisionmaking on the federal buildings program. 6/ The current authorization procedures would be replaced by a once-a-year consideration of a package of projects. Public works committees in both houses would report annual authorization bills for consideration by the entire Congress, rather than making final authorizations themselves. Information would be submitted to authorizing committees for all program activities, but to focus Congressional attention on major undertakings, prospectuses would be submitted only for those projects of $1 million or more. Such an annual process would also promote priority setting, improved long-term planning, and consideration of likely levels of funding in annual authorizations. An authorization process would also help ensure that the FBF program could be coordinated within the total budget process.

Opponents of the option would question the usefulness of adding another layer of decisionmaking--consideration by the full Congress--to the current process, and they would argue that the setting of annual limits in the appropriations bills provides ample means for regulating the federal buildings program. With regard to the authorization process, critics would note that the committees can always stipulate changes in the timing and content of information submitted by GSA for its proposed program. Other critics would caution that large-scale project trading to suit local interests could result from the opportunity to present amendments from the floor of both legislative chambers. Such opportunities, however, already exist during committee deliberation and in the course of debate by the full Congress on other authorization bills such as military construction proposals.

Option II-2--Require Full Funding of Multi-Year Leases

This option would attempt to provide realistic disclosure of obligations and obligational authority presented in the budget for the FBF. Specifically,

---

6. Two Senate bills, S. 2080 and S. 533, recommended adoption of annual authorizations and long-range planning, among other things (see also discussion in Chapter IV).

the budget would account for the full cost of multi-year lease contracts entered into by GSA, consistent with practice for other FBF activities. 7/ The government's known liability would be recorded in the year a multi-year lease was signed, rather than over the lifetime of the lease. 8/

Under this option, for example, budgetary obligations for a fixed-term five-year lease entered into at the beginning of a fiscal year at an annual cost of $100,000 would be recorded as $500,000; first-year obligations would be shown under current reporting only as $100,000. Under current practice, when a lease with a term of one year or more is entered into part way through a fiscal year, GSA records obligations only for the payments that will be made for the balance of the fiscal year. In this example, if the five-year lease were contracted on April 1, obligations for the remaining six months of the fiscal year would be recorded as $50,000 under current reporting.

If full funding of multi-year leases were initiated in 1985, obligations and obligational authority could be recorded for the outstanding costs of commitments under then-existing multi-year contracts, as well as the costs of all the future annual payments under new multi-year contracts scheduled for that year. Relative to the current system, the accounting change would reflect a one-time increase estimated at $3.4 billion in 1985. For the ensuing four years, an average of about $50 million more would be required each year. This average reflects obligations required to meet the full cost of new multi-year leases, less the annual out-year costs of the initial group of leases that otherwise would have been funded on a pay-as-you-use basis. If the change applied only to new multi-year leases awarded in 1985 and beyond, the initial one-time increase would shrink to some $0.7 billion, with annual requirements declining gradually thereafter to $0.4 billion in 1989. 9/ Because existing resources for the FBF would not be adequate to

---

7. OMB Circulars A-11 and A-34 include guidance to agencies on accounting and budgeting for rental costs. This option would require amendment of these regulations.

8. The multi-year impacts of purchase contracts are not considered in this option, because authority no longer exists for new commitments.

9. Because of escalator clauses for taxes and operating expenses, the full-year costs of multi-year leases are not fixed at the time of contract award. Consequently, subsequent budget action would need to cover the impact of future inflation. The CBO estimates for full funding of multi-year leases incorporate future costs for such price changes.

cover the recognition of higher costs, an appropriation most likely would be necessary to supplement SLUC collections. In any case, this option would affect how program activities were recorded in the budget, not the actual level of activity nor the amount of budgetary outlays.

GAO and other proponents of this option would see it as offering the Congress a more accurate disclosure of GSA commitments to spend federal funds. 10/ On the other hand, such budgeting would not allow for the association of costs with the expected period of use of the resource--as is currently the case with the present treatment of lease costs. In addition, the level of program activity would not necessarily be affected by an accounting change alone. As previously noted, leasing costs are mainly influenced by the size of the federal work force and by the price increases that attend inflation. Also, a change in cost accounting would not relieve general budgetary pressures that favor leasing over the large near-term expenditures for contruction of new buildings (described in Chapter IV). Critics of full funding would point out that, because all lease costs would be recorded in the year of contract award, this option could create a strong disincentive for GSA to enter into multi-year rather than annual leases. As a result, any savings associated with multi-year contracts might disappear. In addition, the requirements for full funding could be avoided by entering into short-term leases and then renewing them periodically.

Option II-3--Establish Budget Authority for the Federal Building Fund

This option would restructure the FBF account to show budget authority, thus enabling closer integration with the budget process. As described below, budget authority for FBF could either be created within the context of current SLUC financing or as a substitute for it. Under either approach, the authorizing and appropriations committees could report recommendations for changing the program subject to the provisions for reporting established under the Congressional Budget Act. 11/

---

10. See, for example, letter to the Honorable James J. Howard, Chairman, Committee on Public Works and Transportation, from Donald J. Horan, Director, Procurement, Logistics and Readiness Division, General Accounting Office, April 27, 1982.

11. A related option, described in Chapter IV, would provide budget authority only for amounts borrowed by FBF from the U.S. Treasury.

Under one approach to creating FBF budget authority, agencies would still be assessed for the space they use and would budget for it along with other operating requirements. The application of SLUC income toward costs, however, would be recorded as budget authority in the FBF account. This approach could be patterned after procedures used in other accounts, such as the Department of the Interior's Land and Water Conservation Fund and GSA's National Defense Stockpile Transaction Fund. For both of these accounts, the Congress enacts appropriations (budget authority) to control the amount of funds collected that may be committed for carrying out programs. In these instances, the respective accounts collect revenues from sales to the public of surplus government property.

Because FBF collections represent internal budgetary transactions, government-wide budget totals would have to be adjusted to offset the budget entries in individual agency accounts that include SLUC fees. 12/ Even with such offsets, however, funding shortfalls can occur if appropriation action taken on individual agency accounts covering SLUC payments provides less resources than anticipated in the appropriation action taken on the FBF account. (The budgetary treatment of the federal buildings program under this option in combination with others is summarized, by function, in Appendix A.)

Another approach to creating budget authority would abolish the user-charge mechanism altogether; funding could revert to use of one or more direct appropriation accounts, similar to the situation that antedated the current FBF system. Critics have charged that the current SLUC system has failed to achieve certain of its initial objectives--namely, to encourage more prudent use of space by federal agencies, and to provide a source of capital for investment in federal buildings to permit reduced reliance on leasing commercial space. Eliminating user charges in favor of appropriations offers the most direct way of bringing the program under the Congressional budget process and could save some administrative costs incurred by GSA and tenant agencies in running the SLUC system.

Although budget authority means different things for different federal programs, its application to the FBF--however structured--could provide a way to track the program through the Congressional budget process. It would allow the relative priority of FBF program costs to be weighed

---

12. Examples of interfund adjustments to avoid double counting in government-wide budget totals, located in Budget Function 950, include the employer's (agency) share of Civil Service retirement. See Budget of the United States Government, Fiscal Year 1984, pp. 8-202.

21-483 O - 83 - 6

against other spending priorities, and it would also require that all aspects of the FBF program be considered under reporting deadlines established for the budget process. On the other hand, skeptics who question the need for creating budget authority for the FBF maintain that the current limits on obligational authority contained in annual appropriations acts provide ample means for the Congress to decide on the level or direction of the federal buildings program.

With regard to abolishing SLUC financing, opponents point out that such action would sacrifice a primary advantage of the current system--that costs of federal buildings are associated primarily with the operating requirements of tenant agencies needing federal space. Although past experience weakens this claim, proponents of the current system believe that the growing recognition of budgetary constraints may now induce agencies to reexamine their use of space as one way to trim operating costs. They also argue that the availability of SLUC revenues provides some incentive for GSA to exercise prudence in managing the costs of the FBF program, because savings can be applied to capital investment needs.

Option II-4--Restructure Budget Accounts to Show Gross Outlays

Without creating budget authority for the FBF, this option would restructure budget schedules so that the outlays for the GSA buildings program would show up as gross disbursements in the FBF account, rather than as disbursements in agency operating accounts. Consolidating outlays in the FBF account offers another way to facilitate both the tracking of the FBF program through the budget process and the recognition of budgetary consequences of changes in FBF program components.

The option offers the appeal of not requiring changes in SLUC financing or appropriation actions; the existing appropriations process would remain intact. Tenant agencies would continue to budget for SLUC payments. GSA would continue to commit SLUC revenue to FBF activities, and the Congress would continue to control the annual budget of the FBF program through limiting language in annual appropriation acts. In contrast to current practice, however, the appropriations committees would be accountable for the gross federal building outlays that would show up directly in the FBF account.

The mechanics of the budgetary accounting changes to implement this option are relatively simple, entailing a shift of building outlays from operating agencies to the FBF account. Specifically, two types of changes would be required. First, the budget schedules of tenant agencies would be

modified so that the funds requested for SLUC payments would be shifted from obligations to an unobligated entry. Second, the reporting of outlays in the FBF account would change by altering how the netting from SLUC revenue was treated. At present, SLUC revenues are subtracted from obligations, and thus they reduce the outlays that flow from them. Under this option, SLUC revenues would be netted against unobligated balances, leaving obligations and resulting outlays to reflect gross amounts. The accounting modifications would not change the fact that the FBF account shows no budget authority. The option would result in a one-time reduction in the outlays of tenant agencies, accompanied by a corresponding increase in outlays for the FBF. (Unlike Option II-3, government-wide budget totals would not have to be adjusted to avoid double counting. Appendix B illustrates the accounting changes in budget schedules under Option II-4.)

Implementation of this option would require amendment of certain OMB regulations to broaden the permitted use of certain accounting entries. 13/ Critics of this approach would maintain that such unconventional accounting practices would set a bad precedent for standard guidelines on budget preparation and execution. In rebuttal, advocates would note the fact that some budgetary schedules already use somewhat unconventional budget entries for intragovernmental transactions (for example, between the International Monetary Fund and the Exchange Stabilization Fund); they could also point to the possible elimination of some double counting in budget documents that report government-wide obligations. Some observers view creating budget authority for FBF (Option II-3) as a more straightforward approach to strengthening Congressional oversight and at the same time, creating gross outlays for FBF. Proponents of the current system would object to reporting gross outlays under either option, because the current netting of outlays helps escape pressures against capital investments that increase near-term budget deficits.

---

13. Sections of OMB Circular A-11, stipulating the structure of program and finance tables used in the appendix to the U.S. Budget, would require modification.

CHAPTER III. BUDGET HISTORY AND FUTURE REQUIREMENTS

Though the amount of GSA-provided space has remained relatively stable since the inception of the Federal Buildings Fund, costs (budget obligations as currently recorded) have risen about 70 percent since 1976 (see Table 3). This growth primarily reflects the rising prices of the goods and services GSA purchases; measured in constant dollars, the program has changed little in seven years. Even so, two central questions persist:

- o What can be considered an appropriate level of program costs for key activities? and
- o How should GSA plan for future program needs?

The first part of this chapter describes the history of major FBF activities. The second part describes changes in future requirements for the buildings program under alternative planning assumptions. (Because of certain data limitations, most historical information in this chapter excludes the first year of federal buildings fund operations, 1975).

HISTORY AND TRENDS

The cost history and trends in three areas continue to be of particular concern to the Congress: the size of the GSA-managed space inventory and how efficiently that space is used, the leasing program and its effect on costs, and the level of capital investment. Although of less concern, the balance of reserves in the federal building fund and costs of other, less controllable program components are also examined in this chapter.

Size of the Inventory and the Use of Space

During the period 1976-1982, the FBF inventory of all usable space varied only slightly, with decreases of some 9.1 million square feet of warehouse and other special space more than offsetting increases of some 7.2 million square feet of office space (see Table 4). The increase in office space is largely attributable to an 8.9 percent growth in the federal work force housed in GSA facilities and would have been somewhat greater had it not been for a slight decrease in the space used by each worker. Between 1976 and 1982, average square feet of office space occupied by each worker declined 3.5 percent--from 172 to 166. The average office space used by

TABLE 3. COST TRENDS FOR FEDERAL BUILDINGS, BY MAJOR PROGRAM COMPONENTS, 1976-1982 (Obligations in billions of dollars)

Program Components	1976	1977	1978	1979	1980	1981	1982a/
Construction	0.01	0.01	0.02	0.01	0.03	0.05	0.04
Building Repair and Alteration b/	0.06	0.09	0.17	0.16	0.12	0.10	0.12
Subtotal	(0.07)	(0.10)	(0.19)	(0.17)	(0.15)	(0.15)	(0.16)
Rental of Space	0.43	0.46	0.48	0.52	0.55	0.63	0.71
Purchase Contract Payments	0.05	0.08	0.08	0.09	0.10	0.11	0.16
Facility Services and Program Direction	0.46	0.49	0.55	0.57	0.61	0.66	0.71
Total	1.01	1.13	1.30	1.36	1.40	1.56	1.73

SOURCE: Congressional Budget Office from General Services Administration data.

NOTES: Detail may not add because of rounding.

As of 1977, fiscal years are October to October.

a. Estimates do not reflect merger of the construction services account into the Federal Buildings Fund, beginning in 1982.

b. Estimates exclude amounts for certain operating expenses, which are included under facility services and program direction. These expenses total the equivalent of 25 percent of the amounts listed in the table for construction, repair, and alteration.

each worker varies markedly among particular federal activities and agencies; 1/ but overall, the space use for federal buildings compares favorably with that reported by owners and managers of private office buildings. 2/

1. In 1982, the average office space used per worker varied significantly among individual agencies. Among the largest tenant agencies, the following use rates (in square feet per worker) were reported: Veterans Administration, 175; Internal Revenue Service, 132; Social Security Administration, 158; and Department of Defense, 132.

2. According to one source, federal agencies averaged 3 percent better use of office space than tenants in private office buildings. This comparison is based on 1981 data reported for 19 localities and for a broader nationwide sample in Building Owners and Managers Association International, 1982 BOMA Experience Exchange Report.

TABLE 4. FEDERAL BUILDINGS FUND INVENTORY AND SPACE UTILIZATION, 1976-1982

	1976	1977	1978	1979	1980	1981	1982
				USABLE SPACE			
Inventory (In millions of occupiable square feet)							
Office	135.7	137.7	140.7	142.9	141.8	142.5	142.9
Other	96.2	88.7	89.6	87.9	87.1	87.3	87.1
Total	231.9	226.4	230.3	230.8	228.9	229.8	230.0
Percent of Office Space in Government-Owned Facilities	51.1	51.2	50.5	50.7	52.0	52.1	51.8
Percent of All Space in Government-Owned Facilities	62.3	60.7	60.1	59.5	60.5	60.7	60.3
				WORKERS			
Thousands of Federal Workers							
Office	753.6	780.0	794.3	805.5	797.7	822.6	820.5
Special	69.4	63.8	62.5	62.0	62.9	60.5	58.4
Total	823.0	843.8	856.8	867.5	860.6	883.1	878.9
Percent of Workers in Government-Owned Space	(50.7)	(50.9)	(50.0)	(50.0)	(51.3)	(51.3)	(50.9)
				USE OF SPACE			
Use of Office Space in Square Feet per Worker	172	169	169	169	170	167	166

SOURCE: Congressional Budget Office from data provided by the General Services Administration.

The apparent improvement in use of space in recent years seems more a result of GSA's reporting methods than of the fees (SLUCs) paid by employing agencies occupying leased space. 3/ Experience under the FBF suggests that the slight improvement achieved was attributable largely to central guidance and direction by GSA. In addition, some agencies, such as the Department of Defense, have improved use of space by restricting facility expansion during periods of employment growth. The prospect of incentives from SLUC financing could grow, however, as agencies face tighter budgets and look for ways to reduce operating costs. GSA planners believe that such incentives are already beginning to produce results.

Leasing--a Growing Federal Cost

Under the FBF program, the inventory of all types of leased space increased only about 4.5 percent (from 87.4 million square feet in 1976 to 91.2 million in 1982), while the portion of employees housed in leased facilities remained fairly stable. The costs of annual rental payments, in contrast, increased 65 percent during the same period. The higher rental payments reflect increases in the cost of space per square foot, which rose at an average annual rate of 7.6 percent from 1976 through 1982.

Rental Payments. The increase in rental costs per square foot reflects many factors, notably changes in the type or location of leased facilities, the effects of escalator clauses in lease contracts, 4/ and the general impact of inflation on the price of new or renegotiated leases. Together, these factors produced an increase in the unit price of FBF leased space comparable, on a nationwide basis, with the general rise in the rate of

---

3. See General Accounting Office, GSA's Federal Buildings Fund Fails to Meet Primary Objectives (December 11, 1981), pp. 15-19.

4. Escalator clauses cover about 60 percent of GSA lease payments and pass certain increases for operating costs on to GSA. The escalator clauses, usually limited to cost increases for higher real estate taxes or for utilities and other building operations, may affect approximately one-fourth of lease costs in buildings serviced by a commercial landlord. According to a recent GAO report, the number of leases with escalator clauses has increased--from 9 percent of the total lease inventory as of May 1978 to 69 percent of the total lease inventory as of March 1982. See General Accounting Office, Use of Escalation Clauses in GSA Leases (November 1, 1982).

inflation. 5/ The 7.6 percent average annual increase in FBF lease costs per square foot compares, respectively, to an 8.8 percent average annual increase in the Consumer Price Index (CPI) and a 7.4 percent average increase in the GNP deflator. The increase in FBF unit costs for leasing is not excessive when compared with these and other measures of changes in nationwide rental costs (see overleaf).

Use of multi-year contracts seems to have played a minor role in restraining GSA leasing costs. More than 95 percent of annual lease payments made by GSA go for contracts with firm terms of more than one year. A review of new lease contracts awarded in 1982 shows widely varying initial rates that do not necessarily support a conclusion that multi-year leasing itself is always more economical for the tenant. Rates for three- and five-year leases, for example, average 60 percent more than those for one-year leases. But average rates for leases of ten years and of 11 through 20 years run below those for shorter-term leases (three and five years)--some 11 percent and 39 percent, respectively. Local market conditions and differences in types of space that may affect the lease term categories undoubtedly influence such comparisons, but no clear pattern of savings from multi-year leases emerges. Factors other than savings, however--such as lower administrative workload and avoidance of relocation expenses--argue in favor of multi-year contracts.

Leasing Inventory. The recent relative stability of leased space, both in square feet of inventory and in portion of employees housed, primarily reflects the availability of new government-owned buildings financed through purchase contracts. Since the creation of the Federal Buildings Fund, the portion of leased space has stood at about 40 percent, which is occupied by about half the work force. This pattern contrasts with trends during the ten-year period prior to the creation of the FBF, when the portion of the total inventory composed of leased space increased by nearly one-half.

---

5. Nationwide price increases in the average cost of leased space obviously do not isolate wide variations that may occur either in local real estate markets or rates for new leases entered into versus average prevailing rates for all leases in force.

	Percent Increase 1976-1982	Average Annual Rate
Lease Costs to GSA per square foot	58.3	7.6
	Measures of Cost Changes	
CPI	69.8	8.8
GNP deflator	56.7	7.4
GSA survey a/	54.7	7.2
BOMA survey b/	78.5	9.7
Simple average	65.0	8.3

a. Reflects change in rates for private-sector space comparable to FBF facilities, as measured by GSA.

b. The calculations were derived from data published by Building Owners and Managers Association, 1981 Downtown and Suburban Office Building Experience Exchange Report, pp. 14 and 20. The survey of selected office buildings covered different samples each year, ranging in size from 1,132 establishments in 1976 to 1,345 in 1980. The results were extrapolated by CBO to cover the entire 1976-1982 period.

Level of Capital Investment

Budgetary obligations for contracts awarded to construct, repair, or alter federal buildings grew from $70 million in 1976, to a peak of $190 million in 1978, declining thereafter to $160 million in 1982. When adjusted for inflation, however, the level of capital investment has actually declined relative to earlier periods. The 1982 level of $160 million is--in 1982 dollars--about 70 percent below the average annual level for the 1966-1972 period (before establishment of the FBF) and 13 percent below the average annual level for the seven years of fund's operation.

A shift in the composition of the capital program accompanied the decline in capital investment under the FBF system. In the last three years, 1980-1982, the portion of capital investment going for construction--as opposed to the portion for repair and alteration--increased markedly, averaging 29 percent of the total, in contrast to a 10 percent average for the four years before 1980.

Other Cost Components and Program Reserves

Annual costs for purchase contract payments and operation of FBF facilities are relatively difficult to control and have, along with program reserves, changed markedly since the creation of the fund.

Purchase Contract Payments. The costs (obligations as now recorded) for annual purchase contract payments, under authority that has now expired, increased steadily between 1976 and 1982--rising from $51 million to $156 million. About three-fourths of this growth reflects payments covering some 31 projects for which principal and interest payments on purchase contracts commenced during the 1976-1982 period. The remaining increase largely reflects higher costs for earlier projects, including the payment of local real estate taxes. The total amount for taxes being paid for all projects--some 15 percent of PC costs in 1982--essentially represents a transfer of costs from one level of government to another. Such costs would have been borne by local governments in the form of tax revenues forgone.

Facility Services and Program Direction. Costs for servicing federal buildings and directing the FBF program increased some 54 percent during the same period--from $461 million to $711 million. Nearly all of the growth resulted from wage increases for federal workers and higher prices for utilities, maintenance supplies, and other materials purchased by GSA. When costs for this component are adjusted for inflation, the annual amount in 1982 dollars declined by some 17 percent over the period, while the inventory of serviced space declined only slightly. The resulting reduction in real operating costs (in 1982 dollars) per square foot derived from several cost-cutting activities undertaken by GSA, including expanded use of contracting with private firms for custodial services (36 percent of obligations in 1976, compared with just under 60 percent in 1982) and economies from energy conservation (saving nearly $100 million in 1982). 6/

---

6. For discussion of the potential federal budgetary effects of contracting out for services, see Congressional Budget Office, Contracting Out for Federal Support Services (October 1982).

Program Reserves. Reserves (unobligated balances) have also grown since the creation of the FBF, both in absolute dollars and as a percent of obligations. Between 1976 and 1982, reserves climbed from $161 million to $706 million, or from 13 percent to 34 percent of obligations. Nearly three-fourths of the growth in balances reflects contracts for construction, repair, and alteration projects approved by the Congress but not yet awarded. Some of these uncompleted projects apparently represent scheduling of work for later phases of development--such as drawing plans and obtaining sites, but others may reflect delays effected for budgetary reasons.

FUTURE REQUIREMENTS UNDER THE CURRENT SYSTEM

Assuming no appreciable change in the number of personnel requiring GSA-administered space or in the amount of average office space assigned to each worker, the inventory of all space is projected to decline from the present 230 million square feet to 223 million square feet in 1988. This slight decrease reflects estimated declines in space for storage and other special facilities, resulting mainly from the disposal of obsolete properties. The overall inventory of office space, in contrast, would remain fairly stable, although its composition would change. As projects now under construction are completed, the portion of the federal inventory consisting of leased space will drop from today's 50 percent to 44 percent.

Under the projected baseline inventory, increases in new obligational authority to fund the federal buildings program would accumulate to some $3.6 billion through 1988 (see Table 5). Somewhat more than half of the increases derive from estimated higher unit prices for capital investment, rent, and other costs paid by GSA, and the remainder would come from an expanded construction, repair, and alteration program. (Because of Congressional interest in future FBF requirements, estimates in this section represent new obligational authority as currently recorded. They are presented as a reference point for estimating savings under the alternative planning assumptions and should not be confused with those in the President's budget or GSA's own planning documents.)

Capital Investment. As in the past, the level of capital investment (construction, repair, and alteration of all types of space) scheduled for a particular year is constrained by income from SLUC collections left over after annual requirements for leasing and other costs are met. (The individual proposals that make up the total program level reflect project-by-project justification.) Because SLUC collections are estimated to increase at a faster rate than most costs, the level of capital investment is projected by CBO to increase markedly--from $0.2 billion to $0.7 billion between 1983 and 1988. In 1983 dollars, the projected average annual level of $0.5 billion

TABLE 5. PROJECTED BASELINE INCOME AND COSTS FOR FEDERAL BUILDINGS FUND, 1983-1988 (In billions of dollars)

	1983	Projected 1984a/	1985	1986	1987	1988	Total
				INCOME			
SLUC and Other Income	1.77	2.18	2.45	2.67	2.94	3.12	13.36
				NEW OBLIGATIONAL AUTHORITY			
Construction b/	0.08	0.14	0.27	0.27	0.38	0.41	1.47
Repair and Alteration b/	0.16	0.16	0.22	0.23	0.29	0.33	1.23
Subtotal	(0.24)	(0.30)	(0.49)	(0.50)	(0.67)	(0.74)	(2.70)
Leasing	0.77	0.88	0.95	1.04	1.12	1.15	5.14
Other Costs c/	0.92	0.97	1.03	1.08	1.13	1.19	5.40
Total	1.93	2.15	2.47	2.62	2.92	3.08	13.24

SOURCE: Congressional Budget Office from General Services Administration data.

a. Baseline costs for 1984 reflect a slightly different distribution of costs among program components than that contained in the President's current budget estimates.

b. Estimated new obligational authority for construction, repair, and alteration excludes costs of projects approved in prior-year budgets. The estimated level of construction, but not the selection of particular projects for a given year, largely derives from the amount of SLUC income remaining after funding the other FBF components. Because CBO estimates less inflation for some FBF costs, the amounts available for construction are greater than GSA estimates indicate. The estimated level for repair and alteration excludes associated operating expenses which are included in the other costs category. Also excluded is the impact of additional appropriations provided under the Emergency Job Appropriations Act (Public Law 98-8).

c. Includes costs for annual payments for purchase contracts, operation of public buildings, and overall program direction. Estimates of operating expenses for the FBF substitute a CBO price inflator for the GSA rate. The CBO substitute reflects slightly lower projected increases in energy costs and federal employee wages.

for the 1984-1988 period is almost 175 percent greater than that experienced in the past. The following paragraphs describe baseline projections concerning SLUC collections, leasing, and other noncapital components.

User-Charge and Other Collections. Annual revenues to the FBF account from SLUC and other sources are estimated to increase from $1.8 billion to $3.1 billion between 1983 and 1988. About one-fourth of the annual increase anticipates discontinuation of the 1983 freeze on SLUC collections. Most of the remainder, more than two-thirds of the annual increase, adjusts for the estimated higher unit rental prices that will be paid in the private sector for comparable commercial space--the basis for setting SLUCs. The higher unit prices, rising at an average annual rate of 8 percent (1984-1988), incorporate price changes caused by many factors: market adjustments for prior-year inflation not built into multi-year leases; changes in the type, quality, and location of the GSA space; and annual inflationary increases on private-market lease rates.

Rental of Space. Under baseline assumptions, annual rental costs are projected to increase from today's $0.8 billion to $1.2 billion in 1988. This increase reflects additional costs accumulating over five years to some $1.3 billion because of higher unit prices for rented space. The price increases result from the effects of three factors: general inflationary pressures on future prices, changes in the composition of the leased inventory by geographic area and by type and quality of space, and most important, the high cost of renewing or renegotiating multi-year leases. (For estimating purposes, CBO projects the unit price for new leases to be about twice that of the average unit price for leased space already under contract.) Overall, the annual increase in unit prices for new leases is projected to average about one-third higher than the rise in the rate of inflation as measured by the GNP deflator.

Other Costs. The annual costs for purchase contract payments, operation of facilities, and program direction are projected to increase from the present $0.9 billion to $1.2 in 1988. The increase mainly reflects higher wages for federal employees operating FBF facilities and higher prices for utilities and supplies.

ALTERNATIVE PLANNING ASSUMPTIONS

The level of future FBF program activity will reflect Legislative and Executive Branch actions affecting the size of the work force housed in government facilities and the efficient use of space. This section identifies

alternatives that illustrate the impact of different assumptions contained in released GSA plans for the FBF regarding the size of the work force and the use of space. The impacts described are measured against a current system baseline that reflects no changes in these two variables. Three specific alternatives to baseline assumptions are examined:

- A 12 percent reduction in work force size;
- A 19 percent reduction in office space assigned to each worker; and
- Reductions in both the work force and the space assigned to each worker.

Savings Estimates. The three planning alternatives offer cumulative outlay savings through 1988 that range from $0.7 billion to $1.8 billion (see Table 6); but two rely on actions in the Executive Branch that may run counter to present GSA planning. The CBO-estimated savings incorporate cost reductions--relative to the current baseline--that derive from reduced leasing, some leasing out of federally owned space to nonfederal tenants, as well as lower cleaning, guarding, and other operating costs. 7/ The planning alternatives assume no impact on costs for construction, repair and alterations, leasing and operation of special-purpose facilities, and payments for prior-year purchase contracts. The resulting savings under the various options could be applied to either augmenting FBF capital investment or to reducing the federal budget deficit.

For estimating purposes, the reductions in the inventory under alternative work force and space use assumptions would be gradually phased in through 1988 and distributed between leased and government-owned space according to the relative proportion of each under the current

---

7. Savings from reduced leasing would fall within 9 percent of the leased inventory that, on average, becomes available each year for renewal or renegotiation at the average cost of such space. (GSA assumes much lower lease savings at the prevailing average rate for all space.) Savings from leasing out assume that half the available space would be leased at rates equivalent to 75 percent of what GSA pays for new leases. Put another way, the CBO estimates assume that GSA will recoup about 37 percent of the marginal value of vacated space; using different assumptions, GSA estimates about 30 percent of cost will be recouped.

TABLE 6. ESTIMATED SAVINGS UNDER ALTERNATIVE PLANNING ASSUMPTIONS FOR GOVERNMENT WORK SPACE, 1984-1988 (Outlays in billions of dollars)

	1984	1985	1986	1987	1988	Total
			CURRENT SYSTEM			
Baseline Costs	2.14	2.47	2.61	2.93	3.08	13.23
			ALTERNATIVES			
Reduced Work Force Size	0.02	0.09	0.14	0.19	0.25	0.69
Reduced Space per Worker	0.04	0.18	0.25	0.34	0.43	1.24
Reduced Work Force Size and Space per Worker	0.06	0.26	0.39	0.51	0.64	1.85

SOURCE: Congressional Budget Office.

NOTES: Detail may not add to total because of rounding. The savings estimates would shrink by about one-third if certain GSA assumptions were substituted for CBO assumptions, including those covering the unit price of leased space, the distribution of inventory reductions between leased and government-owned space, and the portion of vacant space that can be leased out.

system. 8/ Even with these allowances, the estimated potential savings will be achieved only by careful planning that recognizes the difficulty of

8. The estimated inventory reductions assume phased implementation of recent regulations governing utilization of office space by federal agencies and GSA planning for changes in work force size. The proportional distribution of reductions between leased and government-owned space differs from GSA planning assumptions that take

relocating federal activities and personnel. (The baseline and alternative estimates assume completion of capital investment projects approved in prior-year budgets.)

Assumption III-1--Reduction in Work Force Size

In contrast to the baseline projections, this alternative reflects implementation of a 12 percent reduction in federal personnel working in GSA facilities through 1988. 9/ The force reduction, totaling some 92,000 workers over five years, follows past efforts to trim the federal work force--at least in nondefense agencies--and GSA planning assumptions. As a result of this reduction, annual requirements for office space would decline from the baseline projection by some 16 million square feet by 1988. The reduction in office space is assumed to have little impact on the distribution of federal employees located in leased and owned facilities; but some 8.5 million square feet of government-owned space would no longer house federal activities and thus would become available for leasing to nonfederal tenants.

Between 1984 and 1988, savings under this planning alternative would grow from about $20 million to $0.2 billion, for a total five-year savings of $0.7 billion. Upon full implementation after 1988, annual savings would exceed $0.3 billion. Considerations other than savings might weigh more heavily in evaluating work force reductions, including the cost and programmatic impacts of operating the government's nondefense activities, the hardships caused workers who might be laid off, the effects on morale, and the short-term costs of reductions in force. 10/ Such factors have undoubtedly influenced the Administration's 1984 budget decisions that show a

---

most of the inventory reductions from the portion that is leased. Thus, savings estimated by CBO would increase under GSA assumptions that space reductions can be taken primarily from leased space.

9. The assumed 12 percent workforce reduction, averaging some 2.1 percent per year, is phased in at 3.6 percent and 2.5 percent annual decrements for 1984 and 1985 and an average 1.9 percent decrement for each of the remaining three years.

10. For a discussion of the costs of federal layoffs, see Congressional Budget Office, Cost of Potential Layoffs Under the Administration's Employment Reduction Program (July 1981).

relatively stable civilian nondefense work force through 1985. 11/ Such budget estimates argue against adopting, for plan-planning purposes, the more stringent work force assumptions in this alternative.

Assumption III-2--Reduction in Space Per Worker

This alternative assumes more austere use of office space, as reflected in recently issued GSA regulations governing tenant space requirements. For estimating purposes, the amount of office space assigned per worker would fall 19 percent by 1988--from 167 square feet estimated under the current policy baseline to the GSA target of 135 square feet, with a minimum first-year reduction of 10 percent for most agencies. 12/ As a result, the estimated annual requirement for office space would decline by 26.4 million square feet for 1988. Under the CBO estimates, this alternative plan would not appreciably change the mix of personnel housed in leased and government-owned facilities in the short run. As in the work force reduction alternative, excess federal space would become available for outleasing, and in fact, in greater quantities.

Savings from the reduced space per worker are estimated by CBO to total $1.2 billion over five years, growing from less than $50 million to $0.4 billion between 1984 and 1988. Annual savings thereafter would exceed $0.5 billion. Experience under FBF indicates that reductions in the use of space are hard to achieve and require strong central guidance and direction. Achieving a target of 135 average square feet per worker will require agen-

---

11. According to the Administration's special analysis of civilian employment in the Executive Branch, the nondefense work force is slated to decline from the actual 1982 level of 1.098 million to some 1.084 million for 1985. See Special Analysis, Budget of the United States, Fiscal Year 1984, p. I-2.

12. On March 8, 1983 GSA issued regulations that prescribe policies and procedures for improving the cost effectiveness of agencies' use of space. Comments on the regulations may be submitted any time prior to June 30, 1983 to insure their consideration in the drafting of the final regulation. See Federal Register, Volume 48, Number 46, March 8, 1983, p. 1982. These regulations rely on GSA's statutory authority, but they have been reinforced by an executive order that sets procedures for agency use of space in more general terms. Executive Order No. 12411, Government Work Space Management Reforms (March 29, 1983). See Federal Register, Volume 48, Number 63 (March 31, 1983), p. 13391.

cies to undertake active space management programs. 13/ Space reassignment would undoubtedly disrupt some ongoing agency operations in the near term, however, resulting in temporary losses of productivity and morale. Finally, annual savings from space economies materialize only gradually because of initial requirements for relocation, space alteration, and cancellations of leases or the outleasing to nonfederal tenants.

Assumption III-3--Reductions in Work Force and Space Per Worker

This planning alternative--the most stringent of the three--assumes implementation of both the work force and space reductions set forth in the previous two options. Through 1988, the combined effect would reduce the requirements for office space by 39 million square feet, or 28 percent; some 21 million square feet of government-owned space will be vacated. The mix of employees housed in owned versus leased space, however, would not change appreciably for some time.

This plan offers the greatest potential money savings among the three alternatives--accumulating to some $1.8 billion by 1988. Savings would grow from about $60 million in 1984 to $0.6 billion in 1988. Annual savings thereafter would exceed $0.8 billion. (The five-year savings could be augmented by more than two-thirds if the option were modified to include a freeze on new construction, although certain long-term economies associated with construction of federal buildings, as discussed in Chapter IV, would be deferred.) Despite the appeal of such high savings, adopting these planning assumptions would involve considerable risk of budgetary shortfalls, should the assumptions understate future requirements. At present, work force reductions are not implicit in other budget decisions, and past experience suggests that sustained improvements in the efficient use of space are difficult to obtain.

---

13. Examples could be found in the Department of Agriculture, the Department of Defense, and the General Services Administration, which, respectively, have produced utilization averages in Washington, D. C. of 155 (Agriculture/South Headquarters), 125 (DOD/Pentagon), and 135 (GSA/Central Office Building).

CHAPTER IV. LEASING VERSUS NEW CONSTRUCTION

In the past several years, many legislators have expressed concern that the General Service Administration's current system for acquiring space biases choices toward leasing, and as a result, the federal government fails to capture the longer-term economies of building and owning its own facilities. (Construction, though costly while under way, and especially so for the federal government, offers potential long-term savings.) This concern stems in part from the sharp decline over the past two decades--from 82 percent to 50 percent--in the portion of federal employees working in government-owned facilities. Although this decline occurred prior to creation of the Federal Buildings Fund, increased reliance on leasing continues to be a subject of debate.

The CBO analysis, reviewed in this chapter, finds that several aspects of the decisionmaking process do indeed skew choices in favor of leasing. After recapitulating the recent legislative proposals to correct this bias, the chapter identifies several critical considerations that influence lease-versus-ownership decisions. The chapter closes with three options for moderating the biases in the present system.

RECENT LEGISLATIVE BACKGROUND

In 1980 and 1981, the Senate passed two bills (S. 2080 and S. 533) aimed partly at correcting what it believed to be GSA's excessive spending for rental of commercial facilities and inadequate funding for federal construction. Both proposals would have required adoption of a new system for annual authorization and budgeting of public buildings projects, a long-range planning process for meeting federal space needs, and an eventual goal to increase the portion of federal personnel occupying government-owned, rather than leased, quarters. The 1981 bill, S. 533, also included provision for the full funding of multi-year leases. A subsequent Senate bill, S. 2451, contained only the annual authorization and budgetary provisions of S. 533, but the sponsors of S. 2451 believed that the mandated

changes specified in the bill would accomplish similar objectives. Related legislation is now under consideration by the Senate as S. 452. 1/

BUDGETARY BIASES THAT FAVOR LEASING

The current structure of the FBF exhibits a pro-leasing bias that reinforces more widespread biases resulting both from general fiscal pressures to limit spending government-wide in the short run and from deficiencies in long-range planning for federal space needs. These more pervasive biases operate independently of the particular budgetary structure of the federal buildings program. (The relative costs of leasing versus construction are examined later in this chapter.)

Structural Bias of the Federal Buildings Fund

The structure of the FBF account has been cited as fostering reliance on leasing. Critics of present FBF accounting methods point to two factors: the partial funding of multi-year leases, and the reliance on Standard Level User Charge financing for capital investments and other FBF activities.

Funding of Multi-Year Leases. As discussed in Chapter I, lease obligations and new obligational authority represent annual lease payments only, not full contractual commitments for such undertakings as construction. With the full costs of multi-year leases unrecorded when the contracts are entered into, the leasing choice seems more attractive from a budgetary viewpoint. To meet space needs, the Congress and the Administration now can either deplete the FBF in the short term through commitments for construction or ease the burden on the fund by spreading out costs (obligations) through use of leasing. Some observers see full funding as the solution to this bias; accounting for full lease commitments in the first year of all contracts entered into would end the short-term accounting advantage of leasing. But this would have the near-term effect of depleting the funds available for new construction. Such a change in accounting would not affect budgetary outlays--that is, disbursements to commercial landlords.

Resources Available from User-Charge Financing. The constraint on FBF expenditures resulting from the link to SLUCs can prevent attempts to convert from leased to government-owned space within the FBF system. Given available resources, in fact, the fund would have been virtually unable

---

1. Sponsorship of these bills has come from both sides of the aisle in the Senate, with S. 2080 put forward by Senator Moynihan (D-N.Y.) and S. 533, S. 2451 and S. 452 by Senator Stafford (R-Vt.)

to support a much higher level of construction and thus significantly reduce GSA's dependence on commercial leasing. In theory, if GSA had planned more new construction to accommodate half the leased office space contracted for since the creation of the FBF, the SLUC resources of the fund would have been depleted, and some $0.6 billion of additional capital would have to have been appropriated by the Congress. Such appropriations have been rare in the past, and they have only been made available for special needs. (This estimate assumes that construction costs of $0.9 billion for some 21.5 million square feet of space would have been partly financed by some $0.3 billion both from balances in the fund and from reductions in leasing costs through 1982.)

It is impossible to isolate the extent to which a bias in the budgetary structure of the FBF program--accounting practices and SLUC limits on expenditures--has diminished the level of capital investment. But even without such constraint, other biases in governmental decisionmaking have contributed to GSA's increased reliance on leased property for meeting federal office-space requirements.

Fiscal Pressures

Under any federal program, budgetary decisions about the level of capital investment may be influenced by a desire to minimize near-term spending. Thus, the obviously lower annual outlays for lease payments (regardless of how obligations are recorded) look initially more attractive than investing in new construction, which always entails substantially higher near-term outlays. This intrinsic fiscal bias may be especially strong when large annual budget deficits and rapid inflation coincide. With regard to high inflation, the leasing of commercial space usually entails purchasing access to already-constructed buildings that created demand on construction resources in earlier years.

In the ten years preceding the establishment of the current FBF system, budgetary controls--albeit often short-lived--were invoked by different administrations to cut back or freeze the level of new construction starts. During this time, however, no such budgetary action has been taken to limit the level of leased space directly, which is usually the residual resource available to GSA for meeting the space requirements of federal agencies. Since creation of the FBF program, general budgetary pressures seem to have restrained the level of obligational authority approved by the Congress.

Reliance on leasing appears nonetheless to have stabilized since the start of the FBF system, but this may be attributable not so much to SLUC

financing as to inventory additions of government-owned buildings under now-expired authority for purchase contract financing. If the space requirements met by PC projects had instead been filled through increased leasing of commercial space, the percentage of personnel housed in leased facilities would have increased to 54 percent--leaving 46 percent in government-owned space. Though the mix of leased and government-owned space may have stabilized with the advent of PC financing, budgetary restraints may still have prevented a further growth of investment in new construction.

Long-Range Planning. In the past, general budgetary and fiscal pressures may have been accompanied by biases resulting from GSA's lack of effective, long-range planning. Only realistic program assumptions and comprehensive assessment of priorities can ensure implementation of GSA's key long-range goals. Without such planning, meeting future space needs by construction is difficult because of the long lead time required for planning, design, and actual building. As a result, the leasing of buildings already constructed has been necessary to meet unanticipated space requirements. In addition, GSA's most recently published long-range plan, prepared for the 1984 cycle, appears also to have been influenced by pressures to restrain spending in the short run. 2/ The proposed program for construction, repair, and alterations accelerates sharply in the out years, 1984 through 1988. For instance, the real level (in 1984 dollars) for the last year of the five-year cycle is about one-half higher than the level in the first year. (Chapter II describes weaknesses cited in GSA's long-range planning and the relationship to the authorization and budgeting process.)

BIASES IN COST COMPARISONS

Regulations set down by OMB also influence space acquisition decisions. Before GSA submits a proposal to the Congress for acquiring additional space, guidelines in OMB circulars require a "present-value" comparison of the options available such as leasing, or government ownership through purchase of existing facilities or new construction. Critics charge that, in the interest of short-term budgetary advantage, the OMB has systematically skewed the specifications in these guidelines. 3/

---

2. See General Services Administration, Public Buildings Service Management Plan, pp. 29 and 51.

3. Report of the Committee on Environment and Public Works, U.S. Senate, The Public Buildings Act of 1981 (April 30, 1981), p. 6.

Present-value analysis allows comparison of all economic costs under different methods of obtaining space. Present-value analysis is predicated on the assumption that, over time, money has earning power. A dollar available today is worth more than a dollar available next year, and conversely, waiting to spend a dollar until next year offers an opportunity to use the dollar productively in the meantime. Alternative acquisition investments, such as leasing or construction, will normally incur different costs at different times. To make a comparison, the costs at varying moments must be reduced to a common basis. The measure usually chosen is the present value.

The discount rate--a key factor in present-value analysis--is used to value the resources made available or forgone under the various methods of obtaining space. Specifically, it represents a relevant interest rate, or real rate of return, assigned to whatever money would or would not be available for other purposes.

Choosing the Discount Rate

What an appropriate discount rate would be is subject to considerable uncertainty. The higher the discount rate, the lower the cost of the leasing option relative to construction, because a high discount rate reduces the present value of dollars spent in the distant future (as under leasing) more than a low discount rate does. Calculated for Circular A-104 by OMB in 1972, current guidelines prescribe a 7 percent rate, which is intended to reflect the internal real rate of return on general-purpose real property leased from the private sector. 4/ Data do not exist to replicate or evaluate in detail the basis for that particular discount factor. (However, a review of historical data used by mortgage bankers to make loans for office building investments suggests expected real rates of return of 5 percent or possibly

---

4. The 7 percent discount rate, stipulated in 1972 in OMB Circular A-104 (Section 4f) was apparently adapted from analysis of rates of return on assets in all sectors of the economy by J.A. Stockfish, Measuring the Opportunity Cost of Government Investment, published by the Institute for Defense Analysis (March 1969). As noted in the Economic Report of the President (February 1983), p. 84, real returns on corporate capital for all sectors combined have ranged between 8 percent and 15 percent since 1945. In recent decades, returns for private investors have been much lower and at times, even negative. The large difference between the total and private returns on investments is attributable to taxes, which extract a portion of the total return on private investment.

much lower on such assets. 5/) The General Accounting Office (GAO) has criticized the underlying basis for the OMB rate, claiming that it sets the discount rate too high, and therefore biases comparisons in favor of leasing.

Review of GAO Criticism. In 1975, GAO recommended that the discount rate stipulated in Circular A-104 be replaced by the average yield (net of current inflation) on outstanding long-term marketable obligations of the U.S. Treasury. 6/ If applied in 1979, the GAO recommendation would have lowered the real discount rate to about 0.2 percent and would have pushed up the cost for leasing relative to that for new construction. Historically, the overall cost of Treasury borrowing has been such that adoption of the GAO recommendation would lead to a real discount rate markedly lower than the 7 percent rate in the OMB guidelines, and thus it would increase the number of comparisions showing construction as more economical. The real rate of federal borrowing for either the short or long term has averaged less than 2 percent over the past 20 years. (These historical estimates of real borrowing costs derive from nominal rates less the actual change in the GNP deflator, and they do not attempt to adjust for anticipated inflation.)

In essence, the respective OMB and GAO positions on an appropriate discount rate represent two different perspectives on the alternative opportunities made available or foregone by government investment. The OMB approach recognizes that government investments of capital mean that fewer resources are available for investment in the private sector. Because the GNP would be lower if the government invested in projects with below-market rates of return, the discount rates now prescribed ought to value federal resources at the same rates as they do private-sector investments. The GAO, on the other hand, prefers a discount rate based on the cost of borrowing by the U.S. Treasury to select the least expensive method for the government to acquire space. Analysts at GAO believe that long-term Treasury borrowing rates offer a more appropriate basis for discounting,

---

5. A CBO analysis of financial data reported by the American Council on Life Insurance shows expected real rates of return on office buildings (borrowed capital and equity combined) averaging from 0.8 percent to 5.2 percent for the 1966-1982 period. The difference depends largely on how the cost of obsolescence is treated and to a lesser extent, on how expected inflation is estimated.

6. See General Accounting Office, Improved Procedures Needed for Justifying Lease Acquisitions of Federal Buildings (February 13, 1975) and General Services Administration's Lease Versus Construction Present-Value Cost Analyses Submitted to the Congress Were Inaccurate (June 20, 1980).

since the discount rate represents the value of federal resources rather than the value of private-sector resources. 7/ This latter approach is appropriate if the government is seeking, as a private investor might, simply to maximize its own financial position, rather than the efficient allocation of resources in the economy as a whole.

If a present-value analysis uses a discount rate based on government borrowing (as GAO recommends), then it creates a bias in favor of capital investment--such as constructing a federal office building. The bias occurs because government borrowing rates are lower than those paid in the private sector that help finance private ownership of office buildings and that thus show up in rental costs. Under the GAO approach, an incongruity emerges. The rental rates on a lease include the private investor's cost of financing at higher borrowing rates; if these rates are discounted for present value at the lower federal borrowing rates, the result is an overstatement of leasing costs. The appropriate rate must discount the cost of capital actually experienced in the private sector, since that is the alternative use of resources, regardless of the option taken. Use of low federal borrowing rates tends to encourage inefficient use of scarce capital.

Constructing an Appropriate Discount Rate. Treasury borrowing rates are lower than private rates of the same maturity, primarily because private enterprises are subject to the risk of financial failure. 8/ When federal borrowing rates are used to evaluate projects, there is an implicit assumption that the risks of failure should be borne by taxpayers. For present-value discounting in lease-versus-construction decisions, adding a risk factor to federal borrowing rates would end an inefficient bias in favor of capital investment. An approximation of this difference between private-and public-sector borrowing rates can be captured by comparing long-term Treasury borrowing rates against private-sector rates for new mortgage commitments to finance commercial office buildings. Over the past two decades, this difference averaged almost 2 percentage points (see Figure 1). Assuming that the same expected inflation rates influenced both markets to the same degree, this means that the differential is a relatively pure measure of market risk in the mortgage commitments area.

An appropriate real discount rate for the purpose of FBF lease-versus-construction comparisons would be the sum of the added factor for risk and

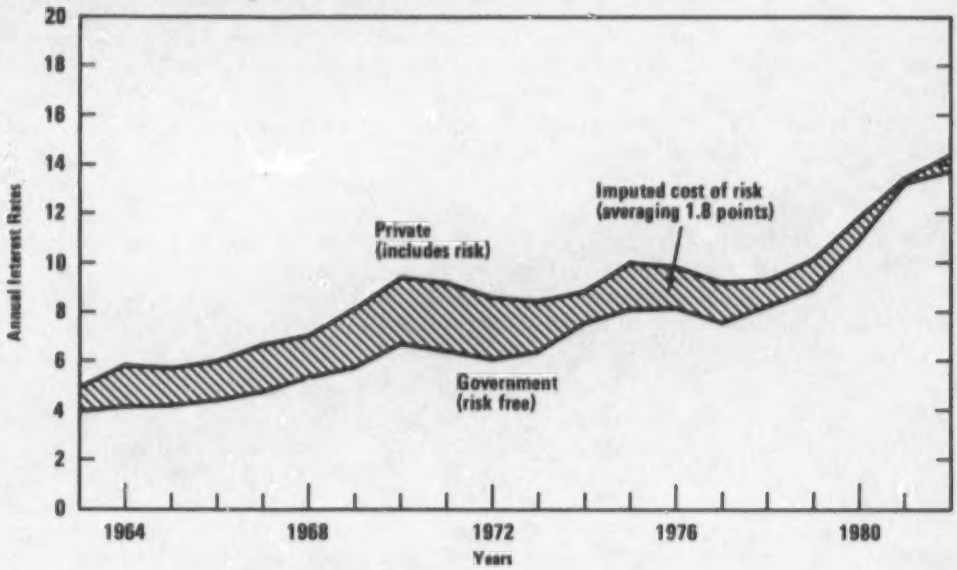
---

7. See General Accounting Office, Internal Handbook, Chapter 20, pp. 20-1 through 20-16 (July 1, 1974).

8. In addition, the depth and breadth of the market for Treasury securities make them more "liquid" (readily convertible into cash) than most private debt obligations.

Figure 1.

Imputed Cost of Risk in Private-Sector Borrowing for Office Buildings, 1963-1982



SOURCE: Derived by Congressional Budget Office from public and private data.

NOTES: **The risk-free government rates** are derived from reported annual yields on outstanding U.S. securities at constant maturities of 20 years. **The private rates** derive from loan commitments of $100,000 or more on commercial office buildings, as reported to the American Council of Life Insurance Companies by some of its members. The rates in 1966 and beyond reflect weighting based on the dollar amounts of reported loan commitments; in earlier years, weights were based on the number of commitments reported. **The imputed risk factor** may be somewhat understated because the loan commitments for private rates do not include the additional yield (unquantifiable) from discounts, fees, or allowance for return from any participation in equity or from any sharing of rental income. Although such factors have become more important in recent years, the imputed risk factor would still average about 2 percent if the analysis excluded the last four years. In addition, the possible underestimate of risk costs may be minimal because the rate on loans placed cannot exceed the commitments but, in some cases, may be lower.

a measure of the (risk-free) real rate of interest. The CBO has estimated the latter by subtracting the annual rate of inflation as measured by changes in the GNP deflator from the average real annual yield on three-month Treasury bills over the period 1963-1982. 9/ When these real federal borrowing rates incorporate a risk factor, the resulting proxy rate averages nearly 3 percent over the past 20 years. 10/ Obviously, a risk-adjusted real rate may change in the future, but historically, the estimated rate exceeded 5 percent in only one case. (Under CBO near-term budget projections, the method used in this paper would produce a discount rate of 4.5 percent in 1984 and 3.9 percent in 1988, although the implications of these near-term projections on historical averages are most uncertain.)

The 7 percent discount rate stipulated by OMB differs from the CBO imputed 3 percent rate because OMB's rate intends to represent internal rates of return in private-sector property operations, rather than approximate private-sector borrowing costs. Many economists favor a discount rate based on rates of return on privately held assets to evaluate the costs of government investment. Used in GSA lease-versus-construction decisions, the 7 percent rate creates a bias toward long-term investment. Lease rates would include the private-sector cost of financing; but when the federal costs of leasing are discounted for present value at the higher OMB rate, the out-year costs are understated. This seems to encourage inefficiencies in purchase-lease choices by biasing the results toward out-year costs, such as those incurred in a leasing agreement.

THE ECONOMIES OF FEDERAL OWNERSHIP

When comparing both cash effects on the FBF budget and present values, the CBO analysis confirms that, in many cases, construction seems

---

9. By calculating the real rate of interest for such short-term investments, the requirement that "expected inflation" be deleted is approximately met because actual and expected inflation cannot differ materially over such a short period.

10. Use of the three-month Treasury bill rates presents a somewhat incomplete picture of real borrowing costs, because private-sector capital investments are not typically financed by such short-term rates. (In the federal government, by contrast, specific debt issues are not ordinarily assigned to particular governmental activities or types of projects.) Undoubtedly, differences between expected inflation account for much of the difference between short- and long-term rates. To the extent that other considerations account for some of the difference, however, the 3 percent discount rate may be understated.

to offer long-term savings relative to leasing. The economies result partly from widely varying conditions in local real estate markets, which drive up rents to the point that costs of federal ownership are eventually exceeded. This occurs despite the fact that buildings constructed by the private sector and leased to the government are generally less expensive than federally constructed buildings (see section below on "other influences").

Budgetary Savings

Measured over a project's useful life, leasing ordinarily requires larger total cash payments by GSA than would federal construction and ownership of the same space. This occurs because rents for commercial office space are often set to recoup costs within 15 years or less. The near-term cash impacts of leasing, however, are much smaller than those for construction--an important consideration in light of current efforts to reduce federal budget deficits.

From the perspective of the FBF budget, leasing commercial space of 100,000 square feet or more typically requires about 40 percent greater cash disbursements at the end of 34 years than does government ownership. (Consistent with A-104 cost comparison guidelines, the analysis covers four initial years of project development plus 30 years of building occupancy.) As shown in Table 7, disbursements for either option are about equal by the twentieth year. In that year, the cumulative amounts for leasing would nearly equal those for construction, repair, and operation of a federal building. 11/

Method of Analysis. The CBO's comparison of cumulative GSA disbursements derives from analysis of data on 42 projects, each with at least 100,000 net square feet of office space. The cost estimates for ownership and leasing were supplied by GSA although CBO made some adjustments in operating costs to reflect geographic differences in federal and private-sector experience. From the individual project data, CBO

---

11. Comparisons of GSA disbursements disregard other budgetary outlays that may arise from Treasury borrowing to meet overall aggregate federal cash requirements; specifically, they exclude the interest payable on the large debt that may be incurred in the construction phase. Under the unified budget, however, most Treasury borrowing is not assigned to particular projects or governmental activities but reflects the aggregate demands for cash government-wide.

TABLE 7. ESTIMATED CUMULATIVE GSA DISBURSEMENTS FOR CONSTRUCTION AND OWNERSHIP VERSUS LEASING FOR A TYPICAL PROJECT OF 285,000 NET SQUARE FEET (In millions of 1980 dollars)

Time Period	Construction/ Ownership	Leasing	Leasing as a Percent of Construction
First Four Years (Development)	46.5	--	--
Through Ten Years	53.4	23.8	45
Through 15 Years	59.5	43.6	73
Through 20 Years	66.3	63.5	96
Through 25 Years	73.2	83.3	114
Through 30 Years	79.8	103.1	129
Through 34 Years	85.0	119.0	140

SOURCE: Congressional Budget Office

constructed a composite prototype to compare outlays. 12/ (For office projects of less than 100,000 square feet, a similar composite showed only 7 percent greater costs for the leasing option, with cumulative costs becoming about equal after 30 years. These smaller projects are not generally located in areas where GSA now leases much commercial space.) The outlay comparisons were based on 1980 prices and thus did not consider the impacts of future inflation. If, for example, all recurring annual costs for repairs, operation, and rents increased at an annual rate of 5 percent relative to the fixed costs of construction, the leasing option would require 93 percent greater outlays at the end of 34 years.

12. The project data was taken from GSA's study, An Economic Analysis of Future Federal Office Space Requirements and Options (May 1981).

Though some observers view them as important, the budgetary comparisons described above disregard both the fact that expenditures occur over different time periods and that a building has a residual value.

Savings from a Present Value Perspective

Comparison of present-values for leasing and construction, unlike the budgetary perspective described above, considers the fact that the cash disbursements for each method of acquisition occur over different periods of time, and that after the period of evaluation, an owned facility has a remaining, or residual, value to the federal government. (The residual value, in effect, represents an asset's future worth--either to reduce budgetary costs by extending the period of the property's use or by selling it as surplus.) Present-value comparisons also consider the off-budget costs of real estate taxes denied local governments with federal ownership of buildings. When comparisons take such factors into account, significant opportunities for savings under the ownership option remain, provided the real cost of borrowing (expressed as the discount rate) stays below 5 percent. This conclusion is supported by a 1981 study undertaken by GSA and by a detailed CBO analysis of the data base used in that report. As noted, the results are highly sensitive to the particular discount rate used in the present-value analysis (see Table 8 later in this chapter).

The GSA Study. Analysis conducted in 1981 by GSA shows that cost comparisons incorporating discount rates based on the highest real Treasury bill rate paid during the past 30 years--2.5 percent--reveals construction to be less costly than leasing in four cases out of five. The GSA study does not recommend a particular discount rate, but it shows construction as the preferred option more often than not, so long as the real discount rate remains below 5 percent. According to the GSA report, the results remain about the same when tested for changes--plus or minus 15 percent--in various individual cost elements. 13/ The results of the analysis, incorporating local market conditions for leasing in 1980, could change under different economic circumstances.

The GSA findings are based on present-value comparisons of leasing and construction cost data for 126 office space projects throughout the nation. (See box on the next page for the elements included in an individual cost comparison.) GSA weighted the results of its analysis to reflect the

---

13. See General Services Administration, Office of Planning and Analysis, An Economic Analysis of Future Federal Office Space Requirements and Options (May 1981).

EXAMPLE. COSTS OF CONSTRUCTION/OWNERSHIP VERSUS LEASING

This example, a composite project, uses GSA's construction and leasing cost data for 42 projects in 38 areas nationwide. Each project has at least 100,000 net square feet of office space. Here, acquiring 285,000 net square feet of office space appears to cost about 75 percent more if obtained by leasing commercial space rather than by constructing and owning a federal building. If, however, estimates are adjusted by present-value analysis to consider each choice's different distribution of expenditures over time, the comparison would show construction as somewhat costlier. Estimates disregard future inflation. The comparison of present values uses a 5 percent discount rate; obviously, other rates would yield different results.

Cost Components	Costs in millions of 1980 dollars: Unadjusted for Present Value	Adjusted for Present Value
	FEDERAL CONSTRUCTION AND OWNERSHIP	
Project Development	46.50 a/	40.87
Repairs and Alterations	15.66 b/	6.42
Building Operations	22.91 c/	9.89
Local Real Estate Taxes (Unfunded)	9.87 d/	4.26
Assets' Residual Value for Continued Use or Sale	-27.01 e/	-5.14
Total Costs	67.91	56.30
	COMMERCIAL LEASING	
Total Costs	119.01 f/	51.42

a. Estimate includes $5.58 million for site design, project management, and inspection, and $40.92 million for construction.

b. Estimate assumes that annual costs for repair and alteration begin in the second year of occupancy and average the following percentages of the estimated construction cost: 1.13 percent per year for the first ten years, 1.47 percent per year for the next ten years, and 1.36 percent per year for the last nine years.

c. Annual costs for building operations are estimated at $2.68 per net occupiable square foot over the 30 years of occupancy.

d. Estimates assume local real estate taxes of $1.15 per net square foot for each of 30 years of occupancy.

e. Estimated residual value is calculated according to formulation in OMB Circular A-106. Accordingly, obsolescence is estimated to reduce building worth to 59 percent of initial value and the value of the site is estimated to appreciate in real terms by 56.3 percent.

f. Estimate assumes 30-year rental payments at an annual rate of $13.92 per net occupiable square foot.

relative amounts of office space it leased in areas where the sample projects were located. In doing so, the analysis considers the opportunities available in any given area to convert from leased to government-owned buildings if such actions could generate savings. For instance, a sample project that received a small weight would indicate that it was located in an area in which there was little opportunity to convert from leasing to government ownership. After weighting, the 126 projects covered by the study account for about 80 percent of all office space leased by GSA in 1980. The GSA comparisons also convert costs to 1980 dollars before adjusting for the different periods of time that expenditures occur. 14/

CBO Analysis. Using the GSA data base, with some adjustments, CBO reconstructed the present-value cost comparisons developed for the 1981 study. 15/ The CBO analysis confirms the GSA findings that construction proves more economical than leasing most of the time--provided the real discount rate remains below 5 percent. Consistent with GSA findings, CBO analysis also reveals that both the incidence and degree of savings are highly sensitive to the particular discount rate used in the cost comparisons. When cost comparisons incorporate a 2 percent discount rate, consistent with the historical real rate of all Treasury borrowing, construction would be the preferred alternative for about four-fifths of all projects, according to CBO analysis. If the comparisons use the CBO 3 percent rate, construction is favored in nearly two-thirds of the cases, and the space converted to construction would eventually save about 30 percent, on a present-value basis, relative to leasing. At the OMB 7 percent discount rate, on the other hand, the construction option is more economical in about one-third of the

---

14. Using real costs (constant 1980 dollars) is consistent with generally accepted evaluation methods and with criteria for present-value analysis stipulated in OMB guidelines. Such a practice removes uncertainty and estimating difficulties that would arise by trying to project future price increases for the various components included in the cost comparisons.

15. In reconstructing the GSA cost comparisons, CBO applied several changes to the data. The first two incorporated information, reported to Building Owners and Managers Association International, on regional differences in local property taxes (GSA used an average national rate) and on differences between federal and private-sector costs of operating office buildings (GSA used private costs only). A third change adjusted the residual value of federal buildings consistent with the formula prescribed in OMB Circular A-104, which assumes a slight annual real appreciation in land values. Finally, CBO developed its own factors for weighting to derive a nationwide average, because this part of the 1980 data base is no longer available.

cases and in the long run, savings relative to leasing average only $9 for every $100 spent (see Table 8).

TABLE 8. INCIDENCE AND DEGREE OF PRESENT-VALUE SAVINGS FROM CONSTRUCTING RATHER THAN LEASING UNDER SIX DISCOUNT RATES (In percents)

Real Discount Rate	Comparisons Supporting Construction[a/]	Average Savings (Relative to Leasing) in Which Construction Is Less Expensive	Average Cost Increase in Which Construction is More Expensive
2 percent	83	31	49
3 percent	64	30	39
4 percent	58	24	51
5 percent	45	20	56
6 percent	36	16	62
7 percent	34	9	77

SOURCE: Congressional Budget Office.

a. Results weighted to reflect amounts of leased space in areas where projects were compared.

The results of the 126 cost comparisons prepared by CBO demonstrate that, under all discount rates, overall economies are maximized if the decisions for each project reflect case-by-case evaluation of the comparative cost of construction and leasing. Even if all projects were constructed, however, some smaller overall savings would still result, relative to aggregate costs for leasing, provided the real discount rate did not exceed 3 percent (see overleaf).

Two additional findings emerge from the CBO analysis of the GSA study. First, results are highly sensitive to weighting for the amount of GSA-leased space in project areas. On an unweighted basis, for example, a

Net Savings from Construction
Under Alternative Discount Rates

Discount Rates in Percents					
2	3	4	5	6	7
Resulting Savings (+) and Costs (-) in Percents					
+17	+5	-8	-22	-34	-48

5 percent discount rate shows construction to be more economical in only 19 percent of the cases--as compared with 45 percent after weighting. This would argue against applying nationwide averages of construction-versus-leasing economies to individual cases. Such unweighted results, however, have little influence on nationwide lease-versus-construction economies, because they do not consider differences in project size or more important, in local opportunities available to alter the mix of leased and owned space. Second, federal construction of relatively small projects--those under 100,000 net square feet of office space--do not yield savings. This has little impact on the weighted results, however, because small projects are located mainly in areas where GSA leases little space.

Other Influences on Federal Building Costs

Special aspects of federal construction and its associated extra costs may influence decisions on how best to obtain needed space. Relative to private construction, the higher costs of federal construction result both from a lack of market incentives and from special requirements, many set in law, for construction of federal buildings.

In the private sector, construction costs may be relatively lower; to make a profit, private developers must be able to recoup construction and operating costs. The government operates under no similar market incentive. Federal construction costs often exceed those in the private sector. Higher federal costs are in fact taken into account when the costs of federally constructed buildings are compared with the costs of leasing commercially constructed facilities. (Despite the higher costs of federal construction, analysis shows federal ownership offers long-term savings relative to leasing.) The difference in development costs can be significant; a 1976 study conducted for GSA indicated that the average federal con-

struction cost for a usable square foot of space was two-thirds higher than that in the private sector. 16/ The estimated difference incorporates the higher costs per gross square foot associated with federal construction, along with the smaller ratio of usable to total space that results from the design of federal buildings. The small sample of federal and private office buildings, presented as representative of the type constructed by each sector, found the cost per occupiable net square foot averaged $64.24 for federal buildings compared with $38.64 for private buildings. 17/

The special costs of federal buildings can also reflect deliberate national policy decisions made by the Congress. (Any comparison of leased and constructed buildings will inevitably involve a contrast of two facilities, each offering advantages not necessarily identified in an analysis of costs alone.) Examples of policies that dictate special design features often not found in the private sector include mandatory access for handicapped citizens, use of U. S.-made materials, and maintenance of certain labor standards under the Davis-Bacon Act. Most of these factors can drive building costs upward. The merits of government ownership may also be determined by certain intangible and unquantifiable factors, such as preserving architectural history or maintaining a dignified federal presence in a local community. On the other hand, leasing of commercial facilities provides flexibility that may be especially important when implementing decisions to reduce the government-wide requirements for federal space.

Along with costs and savings, national policy preferences may emerge as an important part of a lease-versus-construction decision. Because of such preferences, attempts to compare the costs of buildings equivalent in size and location inevitably involve buildings with other important qualities that can differ greatly. Such considerations would argue for lease-versus-construction decisions that do not rely solely on cost factors. The Congress or the Executive Branch may, as a matter of policy, accept higher cost for construction or leasing to achieve specific national objectives. Although the benefits of these considerations cannot be quantified, the use of present-value analysis could show the costs or savings of individual decisions based on such qualitative considerations.

---

16. See Hanscomb Associates, Inc., Cost and Performance Study: A Comparison of Federally and Privately Constructed Office Buildings (July 1976), p. 6.

17. For a further discussion of factors that drive up federal costs, see Michael Fasano, "Why Public Buildings Cost So Much," Real Estate Review (Spring 1981), pp. 78-82.

POLICY OPTIONS

In view of its concern about pro-leasing biases, the Congress has considered several actions that would modify the current system. One measure, already described in Chapter II (see Option II-2), would require full funding of the cost of multi-year lease contracts. Other possible measures include:

- Mandating a lower discount rate in Executive Branch cost-comparison guidelines;
- Establishing a statutory target for the mix between leased and government-owned facilities; and
- Allowing the Federal Buildings Fund to borrow from the U.S. Treasury.

Option IV-1--A Lower Discount Rate in Cost-Comparison Guidelines

Cost comparisons are required under the current system to insure that space for use by federal agencies is obtained from the most economical source. Lowering the discount rate would improve the accuracy of comparing the most efficient method of acquiring space; and it would also remove a bias favoring leasing over federal construction and ownership. Specifically, this option would replace the present 7 percent rate used in cost comparisons with a 3 percent rate, which reflects the average real cost of Treasury borrowing over the past two decades adjusted upward to include average risks in commercial market mortgages. As borrowing experience changes over time, a different rate may be more appropriate. 18/ In any event, any choice of a discount rate would involve some degree of uncertainty.

Though observers may agree that the current discount rate needs revision, little consensus exists as to which particular rate to institute. Whatever the value assigned, a discount rate is intended to reflect the opportunity cost of expenditures by the federal government over different periods of time. This option would apply a discount rate based on federal borrowing, supplemented by extra private-market costs, because it offers an

---

18. As noted previously, the risk-adjusted real rate was close to 6 percent in 1982; it is impossible at this time to determine whether this is a short-term phenomenon reflecting monetary policy and adjustments to lower inflation, or whether it is a harbinger of a new era of higher real rates.

appropriate method of determining the least expensive and most efficient investment for meeting space needs.

Some critics of this option would favor a discount rate based on an internal rate of return in the private sector, such as the 7 percent rate in OMB Circular A-104 or a higher one. This rate would be offered as a more accurate picture of the opportunity cost to society of federal acquisition decisions. On the other hand, some critics might favor a discount rate based on the cost of federal borrowing alone, without correcting for the higher borrowing rate in the private sector attributable to the risk of financial failure. This approach would maximize the construction of federal facilities at the expense of inefficiencies in federal space acquisitions.

Finally, some critics might favor continued reliance on leasing, regardless of cost comparisons, believing that this option would lead to construction of more federal buildings that are too costly. In their view, leasing represents the more appropriate method of obtaining space in light of the need to reduce spending outlays (and hence budget deficits) during the rest of this decade and the need for flexibility in the face of possible contraction both in the size of the federal work force and in the amount of space assigned per worker. They claim that a better approach to achieving economies, under either the current or an accelerated construction program would be to modify design standards and national policy requirements that drive up federal construction costs. 19/ Some advocate an even more drastic approach that would--in the interest of other budgetary priorities--freeze new GSA construction of office buildings altogether.

Option IV-2--A Statutory Target for Mix of the GSA Inventory

To deal more directly with the problem of lease bias, the Congress could simply stipulate a target for the mix of government-owned and leased space. Similar provisions have been advanced in past legislative proposals. 20/ Consistent with past GSA planning, this option assumes establishment of targets requiring an increase from 50 percent to 80 percent over ten years, in the proportion of employees housed in government-owned

---

19. Information on potential savings from eliminating one statutory requirement that increases the cost of GSA and other federal buildings, the Davis-Bacon wage requirement, may be found in Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options (February 1983), pp. 182-83 and in a forthcoming CBO study on the Davis-Bacon Act.

20. In S. 533 prior to amendment and passage.

buildings. The CBO estimates no changes in work force size or use of federal space.

This option would require construction of some 18.6 million additional square feet of office space during the 1985-1989 period--relative to the substantive increase in government-owned space planned for delivery into the GSA inventory before 1995--at an estimated added cost of $1.3 billion over five years. Supplemental funds would have to be appropriated to the FBF to provide this extra capital; if significant reductions were achieved, however, in the size of the work force or in the use of space (as now being considered by GSA) a 70 percent target could be reached in five years without the additional construction. As an alternative to relying entirely on new construction, the requirements for space might be partly satisfied through providing GSA with authority to negotiate purchase options in lease contracts, although the cost impact of such clauses would depend on individual negotiations. In slack rental markets, such as those now characterizing many metropolitan areas, attractive purchase prices might permit some increase in government ownership at relatively low cost or even at a long-term cost advantage.

Proponents of this option would argue that it represents the most direct and effective approach for dealing with the problem of lease bias. The widely varying results of cost comparisons for projects of different size and in different localities, however, underscores the danger of adopting arbitrary targets for acquiring types of space. Critics would prefer careful case-by-case review of projects free of a targeted goal for government ownership, and they would note that a mandated mix could lead to con-struction in instances in which leasing might prove more economical. When all costs are considered in present-value terms, the added shift to government-owned space achieved entirely through new federal construction could eventually cost nearly one-third more than the cost of leasing the 18.6 million square feet. Conversely, achieving the over 60 percent portion in governmentowned space suggested at the 3 percent discount rate would eventually yield savings in present-value terms of about 30 percent (see Table 8, above). From this perspective, modifications of comparison guidelines seem preferable to abandoning the current decisionmaking process.

Option IV-3--Federal Buildings Fund Borrowing from the U.S.Treasury

This option would provide a supplemental source of resources for the federal buildings program in the form of authority to borrow from the U. S. Treasury. As a result of making such intragovernmental transactions permissible, decisions on the level of capital investment for new construction (or for that matter on other components of the FBF program) would

need no longer be limited by the availability of funds from tenant agencies' SLUC payments. Alternatively, supplemental financing could be provided by creating authority for Congress to appropriate funds for capital investment by GSA.

Borrowing authority would be patterned after provisions included in past reform legislation and considered by the Congress (S. 533 as introduced and H.R. 6075). All GSA borrowing would be approved by the Congress through an appropriation expressed as budget authority. Appropriation of additional resources would allow for a higher level of new construction and the associated long-term economies, which are now limited by constraints of current FBF financing. In principle, the capital borrowed could be repaid from eventual savings realized by reducing the amount of leased space.

Large sums of intra-governmental borrowing could be required to satisfy certain policy changes concerning FBF program and financing. To cover full funding of new multi-year leases (Option II-2), for example, borrowing authority could accumulate to some $2.7 billion through 1984. Other borrowing requirements, $1.3 billion over five years, could arise from accelerated construction to alter the inventory's mix.

Besides countering some of the bias against construction, this option would help improve accounting for interest costs associated with federal construction. Interest costs associated with some federal buildings' construction--now hidden in appropriations for interest on the public debt--would be included in the FBF account. In addition, the budget authority appropriated for borrowing could facilitate review of the FBF program within the Congressional budget process.

Critics, on the other hand, might express skepticism that this option would affect budgetary decisions. They would point out that pressures to hold down spending for the near future may depress the level of new federal construction activity, regardless of borrowing authority or other changes in the FBF account structure. Other critics would caution that borrowing authority could lead to an outlay increase for new construction at a time of severe budgetary constraint. Finally, some analysts would regard intra-governmental borrowing for the FBF as unnecessarily complex and highly artificial, especially because the GSA program does not operate as a government corporation or a public enterprise.

From the perspective of some observers, the budgetary biases against large near-term investments for new construction might be better righted by re-enacting authority to use purchase contracting. (In the past, purchase contract authority did allow substantial additions of government-owned space to the GSA inventory.) This approach would probably supplant the

need for Treasury borrowing, although budgetary costs to pay real estate taxes and somewhat higher interest costs would rise. Critics would argue, however, that spreading out the costs of government ownership would prevent recognition of program cost commitments, as is now the case with leasing. To these critics, there is no reason why FBF should escape fiscal accountability through the budgetary manipulation of spreading costs and private-sector borrowing.

APPENDIXES

APPENDIX A. BUDGETARY ESTIMATES OF COMBINING SELECTED OPTIONS

Many of the options considered separately in the chapters of this study could be combined into schemes that would change the Federal Buildings Fund program and its financing while significantly altering its treatment in the federal budget. Three options in particular are being considered in legislation now pending in the Senate. If enacted, the Federal Buildings Reform Act of 1982 (S. 452) would bring about significant programmatic and financial changes, including:

- Option II-2--Adopting full funding of costs for new multi-year leases awarded in 1985 and subsequent years;
- Option II-3--Establishing budget authority for the FBF program revenues, beginning in 1985; and
- Option IV-2--Establishing a statutory target for the mix between leased and government-owned facilities according to which, within ten years, 80 percent of the work force housed in GSA facilities would occupy government-owned space.

These provisions, if taken together as proposed, would require FBF budget authority totaling some $14.4 billion through 1988. Estimated cumulative outlays through 1988, however, are projected to total only $10.6 billion. These smaller outlays would occur for two reasons. First, the bill's requirement for full funding of multi-year leases would affect budget authority but not outlays. Second, the award of contracts necessitated by higher requirements for government-owned space--some $1.3 billion--would be distributed in uniform installments over the five years 1985-1989, and associated outlays would occur over an even longer period. The budget authority and outlay estimates for both the current system and under new financing assume no reduction in the size of the federal work force housed in GSA-managed facilities or in the amount of space assigned each worker.

Table A-1 displays projected budget authority and outlays under the current system. Table A-2 shows projected budget authority and outlay requirements for the FBF account alone, combining the effects of providing

budget authority for use of FBF revenues, full funding of leases, and gradually accelerating construction to achieve a higher portion of government-owned space. Table A-3 details the government-wide budgetary treatment of the FBF under new requirements for restructuring the account to show budget authority.

TABLE A-1. PROJECTED GOVERNMENT-WIDE FBF BUDGET ESTIMATES UNDER THE CURRENT SYSTEM, 1984-1988 (In billions of dollars)

	1984	1985	1986	1987	1988
			BUDGET AUTHORITY		
Tenant agency SLUC payments a/	2.2	2.4	2.7	2.9	3.1
			OUTLAYS		
Tenant agency SLUC payments a/	2.2	2.4	2.7	2.9	3.1
FBF account b/	-0.2	-0.2	-0.2	-0.2	-0.2
Total	2.0	2.2	2.5	2.7	2.9

SOURCE: Congressional Budget Office from General Services Administration data.

a/ The SLUC payments are included in the budget accounts of individual tenant agencies.

b/ Outlay estimates in the FBF account represent the difference between fixed income and gross outlays.

TABLE A-2. PROJECTED BUDGET ESTIMATES FOR NEW FBF FINANCING, 1985-1988 (In billions of dollars)

	1984[a]	1985	1986	1987	1988
Budget Authority					
Basic requirements [b]	--	2.5	2.6	2.9	3.1
Net increase for full funding of leases [c]	--	0.7	0.6	0.5	0.4
Additional capital investment for increased government ownership [d]	--	0.2	0.3	0.3	0.3
Budget Authority Total	--	3.4	3.5	3.7	3.8
Outlay Total [e]	-0.2	2.3	2.5	2.8	3.0

SOURCE: Congressional Budget Office.

a. Estimates for 1984 reflect current financing. Estimates exclude special reimbursable activities.

b. Basic requirements to cover costs projected for the FBF, including lease payments as currently budgeted.

c. Represents the net impact of full funding for multi-year leases over basic requirements, which show budget authority in the years that lease payments are disbursed rather than the full cost in year of contract award.

d. Estimates assume that the 80 percent ownership requirement would entail construction of 18.6 million square feet added to the level under projected basic requirements, for a total government-owned inventory of 110 million square feet.

e. The outlay estimates reflect various rates of spend-out for capital expenditures (construction, repair, and alteration) both from projects covered by new authority and from projects approved in the budget before 1984.

TABLE A-3. DETAIL OF PROJECTED GOVERNMENT-WIDE FBF REQUIREMENTS UNDER NEW FINANCING, BY BUDGET FUNCTION (In billions of dollars) a/

	1984b/	1985	1986	1987	1988
		BUDGET AUTHORITY			
Tenant Agencies (multiple functions as under current law) c/	2.2	2.4	2.7	2.9	3.1
Federal Buildings Fund, as proposed (Function 800) d/	N/A	3.4	3.5	3.7	3.8
Interfund Adjustment, new entry (Function 950) e/	N/A	-2.4	-2.7	-2.9	-3.1
Total	2.2	3.4	3.5	3.7	3.8
		OUTLAYS			
Tenant Agencies (multiple functions as under current law) c/	2.2	2.4	2.7	2.9	3.1
Federal Buildings Fund, as proposed (Function 800) d/	-0.2	2.3	2.5	2.8	3.0
Interfund Adjustment, new entry (Function 950) e/	N/A	-2.4	-2.7	-2.9	-3.1
Total	2.0	2.3	2.5	2.8	3.0

SOURCE: Congressional Budget Office.

NOTE: N/A= Not applicable.

a. New financing begins in 1985. Estimates exclude special reimbursable activites.

b. Estimates for 1984 reflect current financing.

c. Represents costs for SLUC payments budgeted by individual agencies.

d. Estimates for 1985 through 1988 also reflect other new FBF financing requirements, including full funding of leases and an accelerated construction program to increase government ownership of space.

e. Avoids double counting in government-wide budget totals.

APPENDIX B. TECHNICAL CHANGES TO RECORD GROSS FBF OUTLAYS

This appendix provides an example of changes in budgetary program and finance schedules that would give rise to gross outlays in the Federal Buildings Fund account. The changes in program and finance schedules, which are prepared by the Office of Management and Budget for the Appendix to the Budget of the United States, would affect both the operating fund accounts of each tenant agency and the FBF account of the General Services Administration.

Although unconventional, the concept of the technical change is relatively simple. Agency funds for standard level user charge payments would be treated in both accounts as unobligated, rather than obligated, transactions. (The amount affected in the example presented in Table B-1 is $400.) Implementation would require a change in OMB Circular A-11 (sections 32.1-32.4) covering the use and definition of budget schedule entries concerning lapse or restoration of unobligated balances.

TABLE B-1. EXAMPLE OF CHANGES IN ACCOUNT STRUCTURE THAT REFLECT GROSS FBF OUTLAYS (In dollars)

Account Entry on Program and Finance Schedules	Current	Proposed	Change
		TENANT AGENCY	
Obligations (line 10)			
SLUC payments	400	--	-400
Other costs	5,000	5,000	--
Total	5,400	5,000	-400
Unobligated Transfer of SLUC Income to GSA (line 25)	--	400	+400
Budget Authority (line 39)	5,400	5,400	--
Net Obligations (line 71)	5,400	5,000	-400
Outlays from Net Obligations (line 90)	5,400	5,000	-400
		FEDERAL BUILDINGS FUND	
Obligations (line 10)	400	400	--
Offsetting Collections from SLUC (line 11)	-400	--	+400
Unobligated Transfer of SLUC Collections from Operating Agencies (line 25)	--	-400	+400
Budget Authority (line 39)	--	--	--
Net Obligations Incurred (line 71)	--	400	+400
Outlays from Net Obligations (line 90)	--	400	+400

SOURCE: Congressional Budget Office.

NOTE: Line numbers in parentheses refer to the code entries in program and finance schedules found in the Appendix to the U.S. Budget.